CURRENT PETROLEUM MARKETING PRACTICES AND THEIR IMPACT ON SMALL BUSINESS

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS
UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

SECOND SESSION

ON

CURRENT PETROLEUM MARKETING PRACTICES AND THEIR IMPACT ON SMALL BUSINESS

CHICAGO, ILL.—OCTOBER 12, 1982

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HEARING DATE

October 12, 1982:

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CURRENT PETROLEUM MARKETING PRACTICES AND THEIR IMPACT ON SMALL BUSINESS

TUESDAY, OCTOBER 12, 1982

U.S. SENATE,
COMMITTEE ON SMALL BUSINESS,
Chicago, Ill.

The committee met, pursuant to notice, at 9:57 a.m., in room 2541, Dirksen Federal Building, Chicago, Ill., Hon. Alan J. Dixon (acting chairman of the committee), presiding.

Present: Senator Dixon.

Staff present: Charles C. Smith, Jr., legislative assistant to Senator Dixon; Alan L. Chvotkin, minority chief counsel; and Jack Gleason, professional staff member, Senate Small Business Committee.

STATEMENT OF HON. ALAN J. DIXON, A U.S. SENATOR FROM THE STATE OF ILLINOIS

Senator DIXON. Ladies and gentlemen, the hearing will come to order.

Today the Senate Small Business Committee will hold a hearing, pursuant to order of the chairman, Senator Lowell Weicker, on current petroleum marketing practices and their impact on small business.

In August I had the opportunity to meet with members of the Illinois Petroleum Marketing Association, the jobber/wholesalers in this State. During that meeting they raised a number of significant complaints about the practices of some of the major refiners, the impact of those practices on their day-to-day operations, and, in some cases, on their ability to remain in business.

I have heard from service station dealers about credit card and pricing policies.

Representatives of some of the major oil companies have talked to me about the need for aggressive interbrand competition to keep up sales and the impact of 10 years of Federal price and allocation controls on their business.

An efficient and sufficient gasoline distribution system to and through small businesses and the consumer in both urban and rural parts of this State and the Nation is critical. The purpose of this hearing is to allow the three major segments of that gasoline distribution system to come forward and put on the record of this committee their point of view and any concerns that they may have about that distribution system.

The Senate Small Business Committee, as you all know, is a standing committee of the Senate with legislative jurisdiction.

However, there is no legislation now pending before the committee or being contemplated within the committee to address these important but complicated issues.

I am also aware that there has been legislation proposed by other Members of Congress, and bills have progressed in the legislative process. While I would welcome witnesses' comments about these proposals as they relate to the issues that the committee will be reviewing today, the legislation is not the subject of this hearing.

I recognize that, for some, the issues which we will be discussing today affect their very ability to remain in business. I have asked each of the witnesses to be as explicit as possible about the impact of actions that they are concerned about and to put on the record any documentation that they may have. I am also particularly interested in industry trends, as compared to individual complaints.

When the transcript of today's hearing is prepared, it will be sent to the witnesses who testified. In addition, I have already directed the staff to insure that anyone who wishes to respond to charges made or to provide additional information for the record will be given a reasonable time to do so.

Finally, because of the limited amount of time available today for oral testimony, I would appreciate it very much if witnesses would summarize their statements. All written testimony will be included in the record in full.

Thank you very much. I am pleased to see so many of you here and, at this time, will recognize Mr. William Deutsch, executive vice president of the Illinois Petroleum Marketers Association of Springfield.

It is a pleasure to have you here, Bill.

STATEMENT OF WILLIAM DEUTSCH, EXECUTIVE VICE PRESIDENT, ILLINOIS PETROLEUM MARKETERS ASSOCIATION, SPRINGFIELD, ILL., ACCOMPANIED BY GREGG R. POTVIN, COUNSEL

Mr. DEUTSCH. I am happy to be here, Senator.

As you know, I represent the Illinois Petroleum Marketers Association located at 112 West Cook Street, Springfield, Ill., and in doing so I represent over 700 jobbers throughout the State. We have membership in every county in the State of Illinois, both branded and unbranded. Our membership consists of jobbers handling anywhere between 400,000 gallons a year to over 50 million gallons per year, so it is a pretty wide variation.

I would also like to call to your attention that I have our counsel, Gregg R. Potvin of Washington, D.C., here with us today. I am very glad to say that Earl McKay of the Indiana Petroleum Marketers Association is here today; Dave Fellers of the Texas Oil Marketers and his president, Bill Bailey; Tom West of the National Association of Texaco Wholesalers; and Mike Scanlon, vice president, motor fuels, of the National Oil Jobbers Council.

Since you have asked for summarization, I will do so. Recently, we have been watching some of the destructive changes that have taken place between the major suppliers and jobbers whom I represent. Historically, jobbers have enjoyed a unique relationship with

their supplier. While there has been some in-house bickering, they have enjoyed a relationship that has been both mutual and beneficial. Petroleum marketers or jobbers have been able to move the product that the refiners have supplied very efficiently. Down through the years since the 1920's, this partnership has been beneficial in many ways to both the supplier and the jobber.

Jobbers frequently have been on the side of the major oil companies with many problems. Jobbers were extremely instrumental in bringing an end to the Federal controls and regulations of gasoline during the shortage periods. We have constantly fought against divorcement and were quick to come to the rescue in this past spring when an import tax was proposed. The major oil companies have frequently benefited from the support of the jobbers.

Unfortunately, last fall a new destructive force began to emerge. A certain major oil company announced that they would begin charging 3 percent on all major credit cards and that all jobbers and dealers would be forced to pay this 3 percent.

Consequently, later, another major oil company announced that they were canceling most jobber contracts and that they would no longer honor credit cards and would go on a cash basis and price accordingly.

In July, another major oil company in the Midwest announced that they would offer a cash discount of 4 cents per gallon. They were soon followed by another large company that instituted this same program on August 15. As recently as September 15, another major oil company announced that they would accept all credit cards at one price and intended to meet the cash price on the street. This action has forced another major to adopt a similar program.

In each instance that I have mentioned above, the jobber was forced to subsidize a large portion of the discount involved. For example, one major company gave a jobber an 0.8-cent-per-gallon discount for cash while the dealers received 2.8 cents per gallon.

Jobbers found out that the dealers, by participating in the programs, were getting their gasoline cheaper than the jobbers.

In order to understand what has caused this action by the major oil companies, let us go back a few years. In 1975, after the first petroleum shortage was over, several major oil companies decided they would eliminate their commissioned agents and make them jobbers. They sold them their company-owned bulk plants and tank wagons and allowed them to acquire company-owned service stations in certain areas. This was done primarily because the major oil companies had decided to get out of the business of the retail marketing of petroleum products. They knew that the marketer had been more proficient over the years and been able to move the product much more efficiently than the company-operated units.

It was also a known fact that the major oil companies had been faced with updating their facilities by the Environmental Protection Agency regarding new strict regulations for vapor recovery at their bulk plants and service stations.

The majors discovered that some of their transportation equipment was not in compliance with the hazardous hauling regulations imposed by the Department of Transportation and in other instances was almost obsolete. Many of their tank wagons would

have to be updated or replaced, which would cost them several thousand dollars apiece. Please remember that these commissioned agents were forced to buy this equipment and property. However, no allowance was made for upgrading the equipment or property to company with the EPA or DOT regulations.

In 1978 when the second shortage hit the Midwest, the major oil companies worked with the jobbers and allowed them to continue to grow. At this time I would like to point out some important statistics that were published from the Illinois Department of Revenue.

Since 1967 the jobbers' portion of the market had grown considerably. At that time the jobbers had 42.16 percent of the market. In 1973 they had 45.59 percent of the market. In 1975 they had 52.89 percent of the market. In 1978 they had jumped to 56.81 percent of the market, and in 1980—the last year that we have figures for—they had 58.86 percent of the market—almost 60 percent.

As you can see, the jobbers in Illinois and nationwide have handled over 50 percent of the retail marketing sales of gasoline and other petroleum-related products. For example, it has been estimated that jobbers serve 85 percent of the agricultural needs of the country.

Before we were hit with the 1981 recession, the major oil companies were very large and profitable in the petroleum chemical industry. Unfortunately, with the recession, petrochemicals dropped off tremendously and the big oil executives decided that they must get back into the retailing of motor fuels.

The price of crude a barrel also went down considerably. Therefore, big oil made the decision to get back into marketing and bypass the jobber.

Because it is important to this hearing, please remember that "Petroleum Intelligence Weekly" on September 6, stated that the profits on a barrel of crude in 1979 were $2.71 on imported and $2.09 on domestic. But by 1981 the profit on a barrel of crude had grown to $3.97 on the imported and $4.28 on domestic. Therefore, you can see how advantageous it is for the major oil companies to move as much domestic crude as possible and refine it.

Must the small businessman absorb the decline, or is it to be split equally between big business and small business?

This same publication stated, "The reason is a dramatic turnabout that has been made U.S. upstream operations clearly more profitable than those abroad for the first time in a long while. Profits have caught up with and forged ahead of those from other countries." This information was compiled from published data of six major U.S.-based companies: Exxon, Mobil, Socal, Texaco, U.S. Shell, and Gulf Oil.

What jobbers really want is a fair supply contract at a reasonable price with some assurance of supply, no downstream subsidization, no predatory pricing. I have to ask myself if the majors will work toward eliminating these problems so that we can all work for the good of the consumer rather than having an unwarranted and unnecessary fight for a goal we do not want—namely, some radical legislative proposal in Congress.

I would be glad to answer any questions you have on what I have given you today.

Mr. POTVIN. Mr. Chairman?

Senator DIXON. Yes, sir.

Mr. POTVIN. I would like to submit for the record at this time supporting the text of Mr. Deutsche's comments the September 6 issue of "Petroleum Intelligence Weekly" showing that the profit on domestic crude now exceeds that on imported crude; the October 4 issue of "Oil Express" in which statistics are given illustrating that the jobber margin has been reduced by 44 percent in the last 18 months; and, finally, I believe it has been informally supplied to you, Mr. Chairman, and members of the staff, but formally and for the record I would submit the very excellent statement prepared by Mr. Michael T. Scanlon, Jr., vice president, motor fuels policy, for the National Oil Jobbers Council.

Senator DIXON. That will all be admitted in the record, without objection.

[Material referred to follows:]

SPECIAL SUPPLEMENT September 6, 1982

PETROLEUM INTELLIGENCE WEEKLY®

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World Exploration Climate Gets Tougher

The rest of the world is finding it more difficult to compete with the United States for the industry's shrinking oil and gas exploration and development dollars/The reason is a dramatic turnabout that has made US upstream operations clearly more profitable than those abroad for the first time in a long while. US per-barrel production profits have caught up with and forged ahead of those from other countries. This is illustrated in graphs and tables (see below) that PIW has compiled from published data of six major US-based companies: Exxon, Mobil, Socal, Texaco, US Shell and Gulf Oil.

Falling world oil demand and prices have intensified the international contest for exploration-production capital. The slump triggered a severe drop in US drilling activity although this has now flattened out. But international oil companies and others are still showing a marked preference for US ventures. Higher profits, faster payouts, the world's biggest market, and a more stable political climate are offsetting the somewhat limited geological potential in the US. Upstream profits per barrel doubled in the US in the last two years for the six companies in PIW's analysis, while their foreign upstream earnings actually retreated a bit last year.

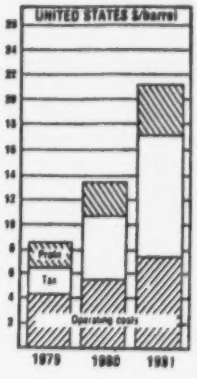
The decline in oil prices and the longer-term perception of a flattening of future price expectations are quickly impacting on spending plans because upstream taxes and costs have been soaring worldwide. Exploration and production costs per barrel for the six companies have nearly doubled both in the US and internationally in the last two years. US taxes per barrel more than quadrupled. That raised government take of their pre-tax upstream profits to about 68%, but it runs up to 90% and even higher in many key producing areas abroad.

Despite the rapid cost and tax escalation, exploration and production activity kept rising to last year's all-time high because oil prices were expected to continue increasing. But with oil prices softening, even a sharp decline in US costs this year has so far done little more than help stem the drilling decline.

Lower oil demand has given the world oil industry more time to provide needed future oil and gas supplies. But the amount of new drilling and development required remains dauntingly high. Exxon estimates that one of every three barrels of oil consumed in the year 2000 will still have to come from sources yet to be discovered. Last year discovery of new Free World reserves exceeded oil production, but over half the gains came in just one country — Mexico.

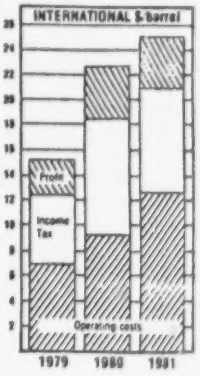
The focus of oil company spending is now fixed on conventional exploration, since falling oil prices have indefinitely postponed most planned outlays on synthetic fuels and other alternatives such as enhanced recovery of known reserves.

HERE'S HOW EXPLORATION AND PRODUCTION ECONOMICS ARE SHIFTING WORLDWIDE



	UNITED STATES			INTERNATIONAL		
SELLING PRICES	1981	1980	1979	1981	1980	1979
Crude & NGL ($/barrel)	$30.48	$18.98	$10.95	$28.89	$25.81	$16.70
Natural Gas ($/1,000 cf)	1.82	1.26	1.00	2.43	2.32	1.71
Average Oil & Gas ($/barrel)*	21.12	13.89	8.48	24.93	22.25	15.10
OPERATING COSTS						
Production	3.21	2.46	1.72	...	...	...
Wellhead Tax	5.50	1.90	0.35	...	...	...
Sub-Total	8.71	4.36	2.07	6.83	4.61	3.24
Exploration	1.79	1.15	0.91	4.20	3.64	2.38
Depreciation†	2.51	1.94	1.55	1.46	1.17	1.33
Income Taxes	3.58	2.86	1.72	8.49	8.71	5.58
Miscellaneous‡	0.27	0.18	0.14	-0.02	-0.07	-0.14
Total Costs	16.84	10.49	6.39	20.96	18.06	12.39
PROFIT MARGIN						
After-Tax Profit	4.28	3.40	2.09	3.97	4.19	2.71
VOLUME						
Total Oil & Gas (1,000 b/d)*	4,613	4,835	5,058	2,088	2,099	2,282
Crude & NGL (1,000 b/d)	2,607	2,683	2,737	1,549	1,570	1,683
Natural Gas (million cf/d)	11,617	12,748	13,810	3,157	3,092	3,498

*Gas converted to oil equivalent barrels on a Btu basis. †Includes depletion and amortization. ‡Includes other costs or income, and adjustments for rounding.



International Oil Search Faces Troubles Ahead

In contrast to the sharp drop in the United States, international drilling activity is being sustained, but largely by commitments made prior to the slump in the oil market. Total use of rigs outside the US is up a bit from last year's level, thanks to further gains in the record pace of offshore operations where a big share of international investment is concentrated. Even onshore drilling has edged up in Europe, the Middle East and the Far East.

But the warning signs are clear. Many potential development projects are being deferred, and oil companies are increasingly selective in seeking new exploration agreements outside the US. Drilling is down steeply in Canada, and less sharply in Mexico and Africa.

Declining oil revenues reduce exploration and development capital for exporting governments as well as for international oil firms. Mexico, still second only to the US in drilling activity, has trimmed back onshore work due to its budget crisis. Nine members of Opec could be in the red this year on their balance of trade. Of five international companies analyzed by PIW (see table), only Gulf Oil showed a gain in per-barrel upstream profits outside the US last year. Gulf's gain reflected build-up of North Sea output, and in first half 1982 its North Sea taxes jumped more sharply than these North Sea profits. PIW's tabulation doesn't reflect either how downstream operations outside the US are often losing money, cutting into upstream profits. The figures also exclude such key upstream areas as Aramco operations in Saudi Arabia and Exxon's profitable share in Dutch gas production.

Opec countries are likely to find it increasingly difficult to attract foreign oil company investment, since they are bearing most of the burden of restricting oil production to adjust to lower world consumption. Abu Dhabi, for example, currently has the highest drilling activity in the Middle East. But industry sources wonder how long this can last when it will soon have to cut back production quotas in other fields to make room for its big new Upper Zakum output in the face of a world surplus (PIW Dec.28,p.5). Algeria and Libya are already having difficulty sustaining industry interest in further exploration and production.

Indonesia is an outstanding Opec exception, with drilling at an all-time high. Far East activity in general is expected to keep growing, getting a particular boost next year from opening of China's offshore areas to foreign companies. Indonesia's boom reflects a combination of factors: current relatively favorable terms; lower-cost shallow-water fields; and better prospects of selling output from future finds — to faster growing Far East economies, the US or Indonesia's own internal market with its big population. Nigeria, another country with a large population, could revive drilling interest with its recent improvement in producer incentives.

Longer term, the poor outlook for oil demand and prices could actually spur some producing governments into accelerating exploration and development in a bid to raise market share. This is already true of Mexico, which some experts believe could be producing as much as 10-million b/d by the year 2000. An end to the Iraq-Iran war will certainly spur efforts by both countries to sharply boost output, although the demand slump dims chances of Iraq's reaching its ambitious goal of 8-million b/d.

Two of the most active non-Opec areas — Canada and the North Sea — face a clouded future. Drilling is already down steeply in the former due chiefly to a controversial "Canadianization" policy, and a growing number of North Sea development projects are being deferred, even though drilling remains high. High cost areas like the Canadian Arctic and the North Sea are at the cutting edge of the price slump. The oil companies believe the United Kingdom in particular must reduce its 89% North Sea tax take if its oil self-sufficiency is to be maintained. Bigger prospects could keep Norway's momentum rolling, but its 90% take is considered a potential threat even to some quite large finds.

The impact of tax policy on marginal prospects is illustrated in West Germany, where a recent jump in the royalty rate has nearly stopped offshore projects dead in their tracks.

Exploration in less developed countries generally remains at a low level, with only a few benefiting from the oil price escalation of the 1970s. Some have succeeded in attracting foreign oil capital, such as oil-exporting Egypt and Malaysia and oil-importing Brazil and the Philippines. As big consumer states, Brazil and India have both pushed state-backed exploration and development, making strides in reducing their import dependence. But an initial lack of interest from foreign bidders caused Brazil to delay its latest round of offshore acreage offerings (PIW July 26,p.7).

INTERNATIONAL COSTS AND PROFITS OF PRODUCING CRUDE FOR FIVE KEY FIRMS

	Exxon			Mobil			Texaco			Gulf			Socal		
SELLING PRICES	1981	1980	1979	1981	1980	1979	1981	1980	1979	1981	1980	1979	1981	1980	1979
Crude & NGL ($/barrel)	31.39	27.14	17.50	31.53	29.33	18.24	22.30	19.21	13.54	28.60	26.73	16.95	24.35	20.69	13.55
Natural Gas ($/1,000 cf)	1.70	1.87	1.39	4.14	3.57	2.60	2.27	1.85	1.27	2.06	2.17	1.58	2.40	2.08	1.51
Average Oil & Gas ($/barrel)	25.20	22.38	14.87	28.51	26.12	17.22	19.62	15.30	11.73	26.27	24.85	15.80	22.08	19.10	12.46
OPERATING COSTS															
Production & Wellhead Tax	10.25	7.28	5.07	5.61	4.21	2.61	4.10	2.88	2.12	3.70	1.68	1.19	5.29	2.23	1.60
Exploration	2.69	2.14	1.53	8.00	7.81	4.61	1.27	1.10	0.98	3.23	2.79	1.64	5.22	3.72	2.95
Depreciation†	1.59	1.31	0.99	1.45	1.34	2.61	1.04	0.62	0.71	1.26	0.80	0.62	1.71	1.63	1.34
Income Taxes	7.53	8.14	4.99	9.16	9.48	5.54	8.73	2.67	3.64	13.46	16.71	10.02	6.40	7.22	4.10
Miscellaneous‡	0.05	0.01	(0.11)	...	...	...	...	...	...	(0.28)	(0.77)	(1.03)	0.09	0.14	0.04
Total Costs	22.11	18.88	12.47	25.13	22.84	15.37	13.14	7.27	7.45	21.37	21.21	12.44	18.71	14.94	10.03
PROFIT MARGIN															
After-Tax Profit	3.09	3.50	2.40	3.38	3.28	1.85	6.48	8.03	4.28	4.90	3.64	3.36	3.37	4.16	2.45
VOLUME															
Total Oil & Gas (1,000 b/d)*	795	774	890	468	501	570	343	329	337	290	300	338	169	175	170
Crude & NGL (1,000 b/d)	568	563	632	285	291	322	304	294	284	253	262	288	136	139	130
Natural Gas (million cf/d)	1,364	1,264	1,550	1,139	1,174	1,110	237	209	319	212	224	277	198	217	240

*Gas converted to oil equivalent barrels on a Btu basis. †Includes depletion and amortization. ‡Includes other costs or income, and adjustments for rounding.

Financing Dries Up As Oil Prices Decline

Without the incentive of the 1970s' steadily rising oil prices, financing of oil and gas exploration and production projects has become more difficult. Not only are oil companies being forced to cut back and redirect their own expenditures, but previously abundant sources of outside funding are also drying up. Many smaller companies, and even majors such as Socal and Gulf Oil, have scaled back planned 1982 capital and exploration spending. This is mainly because lower oil prices and rising costs now make commercial profitability and the chance of early returns controlling factors for most upstream investments.

In the United States, banks and private investors have grown increasingly gun-shy of upstream projects. This is partly due to changed tax incentives and recent loan defaults that have added to the uncertainties created by falling oil prices and demand. In first half 1982, sales of interests in oil and gas to private investors fell by a third due in part to the lowering of the maximum tax rate, which makes them less desirable as tax shelters. Furthermore, the recent collapse of an Oklahoma bank, caused in large part by excessive lending to risky gas exploration ventures, sent tremors through the banking system. A number of large banks carrying some of this debt suffered losses. This has added to the conservatism of bankers about oil loans, but they stress that money is still available for sound projects.

Declining revenues may also tend to reduce exploration and development expenditures by the oil exporting countries. Mexico is one example. A notable exception is Kuwait, which is broadly expanding its exploration abroad and particularly its upstream outlays in the US.

Poorer profitability likewise makes international bankers somewhat more cautious about backing projects outside the United States. But the World Bank is still determined to increase its upstream loans to the less developed countries to help reduce their dependence on oil imports and improve their balance of payments. Despite frustration of its effort to set up a special energy affiliate, the World Bank increased its regular oil and gas loans to $540-million in 14 countries in fiscal 1982. It is also seeking to expand its co-financing with the private sector.

Some of the oil importing nations are also making fresh efforts to draw in more private foreign capital to supplement their own. Brazil, India, Pakistan and New Zealand are recent examples of where new exploration deals have been put on offer.

The alternative to exploration of buying established reserves through oil company takeovers has attracted much attention in the US. Low stock values have made them attractive compared to the cost of finding oil with the drill. Du Pont and US Steel paid just $4 and $7 a barrel respectively for Conoco and Marathon, compared with oil-finding costs ranging from $3 to as much as $15 a barrel for the major companies in recent years. But a recent stock market rally in the US could slow the acquisition trend, despite Occidental's pending bid for Cities Service.

The cloudy financing outlook does have a silver lining: funds previously earmarked for alternative energy projects and oil company diversification into coal, minerals and other non-oil ventures are now more likely to go into oil and gas projects. Several top oil executives have recently reaffirmed their commitment to conventional oil and gas.

US interest rates have also been declining. This should help revive US oil and gas outlays. And it could weaken the US dollar against foreign currencies, helping exploration and development projects outside the US.

US Prospects Still Bright Despite Slump In Drilling

Oil and gas exploration and development in the United States is still at the second highest level ever, even after the severe onshore drilling fall-off in first half 1982. The drop has already halted, and a revival in domestic crude oil prices would likely promote another upturn, if not a surge like last year's. Momentum from 1981 actually carried first half 1982 well completions to a new high, despite an incredible drop of more than 1,600 in active land rigs to just 2,660 at end June from December. It has been on a plateau since then. Offshore activity continues at a record pace.

Some large US oil companies have drastically pared outlays, but others are actually spending even more this year than during last year's binge. The big decline chiefly reflects huge cuts by smaller independents and by investors outside the oil industry. Lower demand and prices for oil are a big factor, but many other forces are at work also. US tax changes have made oil investment less attractive as a tax hedge for outside investors and further squeezed the cash flow of producers. High interest rates have made oilmen more reluctant to borrow, and bank loans are less readily available anyway, reflecting the poorer oil climate and a scare caused by the collapse of a bank heavily committed to drilling loans. Investment is also off sharply from funds put into the industry by small investors through drilling funds and by overseas investors. A natural gas surplus has brought a sharp decline in prices and sales of decontrolled gas production.

The obvious spur for last year's headlong drilling pace was a 150% leap in US crude oil prices in 1980-81 and a near doubling of average US natural gas prices. So the rapid cool-off isn't surprising in the wake of price drops averaging $2 to $3 a barrel for crude oil and $2 to $4 per 1,000 cu ft for the costliest gas — decontrolled "deep" gas produced below 15,000 ft. Ironically the rise in US oil prices had about peaked when oil prices were decontrolled in Jan. 1981. While decontrolled gas prices are falling back, prices are rising on the bulk of gas output under controls.

Last spring about 650 rigs were drilling for deep, decontrolled gas in Oklahoma's Anadarko Basin — equal to the rig activity in the Middle East, Africa and Europe combined. But following the drop in decontrolled gas prices, 50 to 100 rigs have already left.

Declining activity is bringing quick relief from the recent rapid rise in costs of US drilling. Daily charter rates for onshore rigs and new lease costs are down about one-third from a year ago.

Lower prices are also easing the US tax burden. In fact, regardless of future price trends, the impact of the so-called "windfall profits tax" will moderate as the years roll by, due both to an annual inflation adjustment and to rising amounts of exempt output. The current high marginal tax also means the US Government bears the chief burden of price cuts. It would, of course, also reap most of the benefit from price recovery.

Already booming US offshore exploration will get a further boost from the unprecedented offering of 1-billion acres of federal leases over the next five years. Only a fraction of that total is likely to be taken up in that period, but it will still enormously expand obligatory drilling of offshore wells and the potential for new

discoveries. It's estimated these untested areas could contain more oil and gas than current total proved US reserves. But once-glowing hopes for Atlantic offshore basins have been dashed by drilling results, so far — introducing a note of caution.

US exploration should continue to gain from international companies seeking to hedge heavy reliance on foreign sources. Texaco and Socal, for example, each deriving well over half their worldwide supplies from Saudi Arabia, are particularly concentrating on US drilling. And they have each recently made neighboring major discoveries in California's Santa Barbara Channel.

UNITED STATES UPSTREAM ECONOMICS FOR SIX LEADING OIL PRODUCERS

	Exxon			US Steel			Texaco		
SELLING PRICES	**1981**	**1980**	**1979**	**1981**	**1980**	**1979**	**1981**	**1980**	**1979**
Crude & NGL ($/barrel)	$28.51	$17.93	$10.43	$30.27	$18.55	$10.13	$31.58	$19.54	$11.69
Natural Gas ($/1,000 cf)	1.47	1.15	0.95	2.02	1.84	1.31	1.25	0.98	0.80
Average Oil and Gas ($/barrel)*	20.59	13.62	8.35	22.16	15.35	9.14	19.86	12.66	7.75
OPERATING COSTS									
Production	2.55	2.00	1.30	3.88	2.77	1.93	3.36	2.69	1.77
Wellhead Tax	5.86	2.00	0.44	4.75	1.90	0.27	5.13	1.60	0.42
Sub-Total	8.41	4.00	1.74	8.63	4.67	2.20	8.49	4.29	2.19
Exploration	1.69	0.96	0.92	1.66	1.20	1.02	1.34	0.85	0.49
Depreciation†	2.23	1.52	1.37	2.81	2.15	1.47	2.51	1.99	1.68
Income Taxes	3.68	3.25	1.89	4.01	3.27	1.95	3.46	2.54	1.56
Miscellaneous‡	...	...	...	...	...	...	...	...	...
Total Costs	16.01	9.73	5.92	17.14	11.29	6.64	15.80	9.67	5.92
PROFIT MARGIN									
After-Tax Profit	4.58	3.89	2.43	5.02	4.06	2.50	4.06	2.98	1.83
VOLUME									
Total Oil & Gas (1,000 b/d)*	1,263	1,360	1,411	839	808	795	742	849	992
Crude & NGL (1,000 b/d)	752	787	791	514	511	481	381	413	464
Natural Gas (million cf/d)	3,066	3,373	3,723	1,820	1,780	1,823	2,168	2,618	3,171

	Mobil			Gulf			Socal		
SELLING PRICES	**1981**	**1980**	**1979**	**1981**	**1980**	**1979**	**1981**	**1980**	**1979**
Crude & NGL ($/barrel)	$29.53	$18.92	$10.91	$33.56	$21.05	$12.32	$31.05	$19.07	$10.53
Natural Gas ($/1,000 cf)	1.62	1.29	1.12	1.54	1.16	0.83	2.03	1.58	1.11
Average Oil & Gas ($/barrel)*	19.06	12.84	8.47	21.51	14.01	8.62	24.45	15.43	9.12
OPERATING COSTS									
Production	2.61	2.10	1.62	2.72	2.09	1.60	4.67	3.80	2.58
Wellhead Tax	4.66	1.59	0.31	6.25	2.23	0.43	6.64	2.06	0.26
Sub-Total	7.27	3.69	1.93	8.97	4.32	2.03	11.31	5.86	2.84
Exploration	1.89	1.32	1.23	1.65	1.12	0.79	2.68	1.90	1.12
Depreciation†	2.68	2.24	1.46	3.43	2.85	2.33	1.64	1.27	1.10
Income Taxes	3.38	2.62	1.83	2.58	2.00	1.19	4.04	2.95	1.75
Miscellaneous‡	...	...	...	1.44	0.93	0.60	0.56	0.37	0.46
Total Costs	15.22	9.87	6.47	18.07	11.22	6.94	20.24	12.35	7.28
PROFIT MARGIN									
After-Tax Profit	3.84	2.97	2.00	3.44	2.79	1.68	4.21	3.08	1.84
VOLUME									
Total Oil & Gas (1,000 b/d)*	651	666	684	578	621	652	543	538	544
Crude & NGL (1,000 b/d)	316	318	321	296	320	338	342	335	344
Natural Gas (million cf/d)	1,874	1,950	2,033	1,685	1,808	1,898	1,205	1,219	1,152

*Gas converted to oil equivalent barrels on a Btu basis. †Includes depletion and amortization. ‡Includes other costs or income, and adjustments for rounding.

OIL EXPRESS October 4, 1982

exclusive report serving informed petroleum marketers nationwide

Gasoline Price Barometer

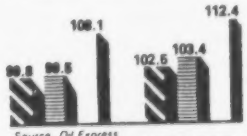
Cheap gasoline, for months the province of major refiners and their jobbers, is starting to turn up in the hands of independent refiners, brokers and traders again.

Their new-found price edge has its roots in the falling spot markets. At the Gulf Coast regular grade has cracked 92cts gal. At New York and Group 3 spot markets the range is 93-94cts.

These numbers provide the leverage traders need to compete with refiners. In the Midwest, the traders are already being heard from.

Lincoln Land has regular for 95cts. Apex is quoting even lower numbers in Indiana. Ditto for Continental Ozark in Arkansas. Spruce is competitive in Missouri, Oklahoma and Kansas.

AVERAGE NATIONWIDE DTW
(in cts/gal)
Regular gasoline Unleaded gasoline



Source: Oil Express

AVG. SPOT/WHOLESALE PRICES
(in cts/gal)
Spot regular Wholesale regular

Source: Oil Price Information Service

Current week | Previous week | Year ago

Oil Express survey finds

Jobber-dealer spread off 44% in 18 mos.

Suppliers have reduced jobbers' functional discount--the difference between rack price and direct-supplied dealers DTW--by 44% since federal controls on gasoline were lifted 18 months ago, an Oil Express survey indicates.

The cut in the jobber discount is just "one part of the distribution puzzle" that's also squeezed dealer and refiner margins to near zero, one oil company VP says.

"I don't think any marketer--refiner, jobber, or dealer--can expand margins" until the economy recovers or a whole lot of people go out of business, he says. And that process will take another full year, he notes.

Margin cuts vary widely by supplier and geography. Some examples:

Supplier	State	Functional discount in ct/gal Feb. 1981	Today
Exxon	New York	4.25	2.50
Mobil	Ohio	3.07	1.70
Gulf	Florida	3.50	3.00
Texaco	California	3.50	1.75
Exxon	Texas	3.25	2.50

Look at our new price charts

At readers' request, we have totally revamped and expanded our price charts on pages 7 and 8. The charts now show rack and dealer tankwagon prices for dozens of suppliers at 22 key locations across America.

The prices are provided to us by Oil Price Information Service (OPIS) through its daily updated PetroScan electronic pricing system. Prices shown in each Monday's issue of Oil Express include price changes confirmed by OPIS as of 6 p.m. the previous Thursday. The prices do not include taxes or discounts. Suppliers' terms are also listed. When, for instance, a 1-10 term is shown it indicates a 1% discount for payment within 10 days.

Will refiners dump 'gas' at year's end?

There are growing indications that fall 1982 will feature a repeat of the gasoline dumping that battered many markets in fall 1981.

Last year, independent and major refiners slashed inventory in a year-end rush to boost paper profits and adjust "gas" levels for operating purposes. From October through December, spot and contract gasoline prices

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October 12, 1982

Hon. Alan J. Dixon
United States Senate
Committee on Small Business
424 Russell Senate Office Bldg.
Washington, D.C. 20510

Dear Senator Dixon:

On behalf of the National Oil Jobbers Council (NOJC) I would like to submit the following comments for inclusion into the record of the committee's hearing taking place in Chicago, Illinois, regarding the current situation in the motor gasoline marketplace.

The NOJC is a national federation of 42 regional and state associations representing more than 15,000 independent small business petroleum marketers. NOJC member companies market more than 50 percent of the gasoline and more than 85 percent of the home heating fuels sold annually in the United States.

The NOJC congratulates you and the Senate Small Business Committee for your interest in this most vital issue and in our segment of the petroleum industry.

Today the competitive viability of thousands of small business petroleum marketers is at stake. Since the decontrol of motor gasoline in January of 1981, the marketplace has been the scene of fierce competition; it has also been the scene of various actions on the part of our refiner-suppliers which independent marketers consider to be predatory in nature. Immediately following deregulation the marketplace was shaken by several refiner imposed actions including: the withdrawal from marketing in many regions of the country, complex and unworkable rebate schemes, the imposition of costly credit card processing fees, and as this summer driving season began, unfair allocations of gasoline product to independent marketers.

We would submit that since the beginning of the summer driving season that the jobber complaints of alleged predatory activity have escalated dramatically. These allegations emanate from all states and regions of the country with increasing frequency, making the current situation in the gasoline market a bleak one. The complaints about refiner-supplier practices tend to fall into several categories:

(1) discriminatory and subsidized refiner-supplier pricing policies, whereby a given refiner raises his jobber buying price, but does not raise his own transfer price to re-

finer company direct-operated retail outlets or his price to refiner supplied dealers by a concomitant amount;

(2) discriminatory allocation policies, whereby a given refiner-supplier places a product buying limit on independent jobbers, but does not do so upon his own company direct-operated stations nor upon his own direct-supplied dealer network;

(3) reductions in the jobber's traditional functional margin, whereby the differential between the wholesale jobber buying price and the retail dealer buying price has been reduced significantly or is virtually non-existent; jobbers cannot recoup their legitimate wholesale investments under such pricing policies (according to the Oil Express publication, 10/4/82, the jobber-dealer price differential has shrunk by 44% in just 18 months);

(4) changes in jobber credit limits and also more stringent than necessary credit limitations upon jobber customers; elimination of the traditional 1% within 10 days prompt payment discount, and, credit harassment of jobber customers, some of whom have been selling branded product for that refiner for more than 50 years;

(5) elimination of jobber freight or hauling allowances by refiner-suppliers; also refiner direction of jobber product purchases to terminal locations further away from a given jobber's marketing area; not only does the freight allowance disappear, but the actual cost of freight increases for the jobber due to further hauls;

(6) increased refiner-supplier undercutting of current jobber bulk end-user customer accounts, allegedly at subsidized prices, which jobbers consider to be predatory; and,

(7) granting of temporary competitive allowances to refiner direct-supplied dealers with no proportional, equitable allowance for jobber customers; this amounts to subsidizing one class of customer over another.

All these complaints coupled with the onerous burden of refiner imposed credit card processing fees, which cannot be passed through to the consumer, place a heavy financial burden on most all independent small business petroleum marketers.

No one refiner-supplier has been accused of all of the above predatory actions; however, virtually no refiner is exempt from at least one charge of predatory activity.

Due to these refiner imposed actions, the NOJC formed a special Ad Hoc Committee on Supplier Practices to study and recommend policy changes at the national level which would enhance competition in the petroleum marketplace. The Ad Hoc Committee recommended a four-point policy program; the four-point policy program was adopted by the NOJC Board of Directors at its Fall Convention last week. The program is as follows:

- o that the NOJC push for stepped-up efforts by the U.S. Department of Justice and the Federal Trade Commission to enforce alleged refiner violations of the existing anti-trust laws;

- o that the Congress initiate investigative hearings into current petroleum marketing problems and into federal agency enforcement policies concerning alleged violations;

- o that NOJC and its member associations develop a full slate of state legislative and other remedies to address predatory supplier activities peculiar to each state; and,

- o that the NOJC consider supporting a specifically-designed piece of federal divorcement/divestiture legislation tailored to address the overall problems of the gasoline marketplace.

NOJC's Board of Directors made these recommendations after careful consideration and with some reluctance. Government interference in the marketplace is something the Council has consistently sought to avoid, not encourage. Many marketers, however, now feel that the system of government controls which were eliminated in January of 1981, have been replaced with a series of equally onerous, inflexible controls by suppliers. With their backs to the wall, marketers may have no recourse but to seek some form of government involvement.

It has been stated many times that jobbers have available recourse under existing laws if they feel a certain refiner-supplier is imposing predatory actions upon the jobber. However, no single petroleum marketer, nor even an association of marketers can afford a costly and lengthy federal anti-trust lawsuit in pursuit of equity. A recent Federal Trade Commission lawsuit against eight major oil companies was dropped after millions of dollars were spent and after eight years of legal actions. There is irony in all this; the same federal anti-trust laws which were designed to protect small businesses from predatory competition also prohibit small businessmen from acting in concert or via an association to address the common grievances of a given supplier.

Therefore we urge the U.S. Senate Small Business Committee to pursue these hearings this Fall and into the 98th Session of the U.S. Congress. We pledge our association's cooperation in such hearings both in presenting instances of refiner abuse and in discussing possible remedies.

Respectfully submitted,

Michael T. Scanlon, Jr.
Vice President, Motor Fuels Policy

11-626 O—82——2

Senator DIXON. I think we had probably better go ahead and hear the testimony from the panel, and then we will have a question-and-answer period, if that is all right.

Mr. Deane Stewart of Stewart Oil Co., in Urbana is the next witness.

Mr. Stewart.

STATEMENT OF DEANE STEWART, PRESIDENT, STEWART OIL CO., URBANA, ILL.

Mr. STEWART. Good morning, Senator Dixon and members of the Senate Small Business Committee. My name is Deane Stewart, and I am president of Stewart Oil Co., in Urbana, Ill. We are an independent marketer of petroleum products within the State of Illinois.

Recently a jury in North Carolina determined that collusion existed in pricing and supply when it was found that many oil companies maintained exact or similar procedures even though contact between the oil companies was never proven. It was based on the issue of interdependent conscious parallelism. Similar situations exist in the Illinois marketplace.

It would appear that there exists a concerted effort on the part of the largest major oil companies to reduce the market share presently held by the independent marketers. Some have publicly stated their intentions to increase their share of the market through very competitive programs, and many industry observers believe there is a movement by many suppliers to rid themselves of their jobber customers. Again, the methods employed are very similar. Specifically, let me enumerate some examples.

Discrimination in pricing procedures: Arco, for instance, has developed a program to allow their stations to price continuously below any competitor on the street. It is reported that some station operators in the Chicago market are receiving as much as, or maybe more than, 6.8-cents-per-gallon allowance. Such allowances place Arco's apparent wholesale price 5 to 6 cents below the market.

This allowance program is not limited to Chicago but is in fact widespread. The issuance of temporary competitive allowances for the refiner-supplied station operators ignores equitable allowance to the independent marketers.

Another example is refusal of supply contracts. The Federal Trade Commission reports that the eight largest major oil companies have consistently refused to supply gasoline to independent marketers. They document a report from one company saying, "Any and all requests for unbranded gasoline supply to be flatly refused with no compromise."

Independent marketers, without a secure supply, must seek alternative sources, which continue to disappear each day as buyouts continue, with such examples as United States Steel/Marathon, DuPont/Conoco, and Occidental/Cities Service. The available supply sources are reduced to undependable brokers who prosper during supply gluts and disappear at the hint of a shortage.

Another example is elimination of freight allowances. Hauling allowances have been pared or eliminated, resulting in longer

hauls. Since a supplier will have a product at a specific terminal, the buyer must absorb the freight which can be detrimental to his pricing program. Prior to decontrol, the majority of gasoline was priced on a delivered basis, which maintained a uniform competitive price throughout the State. Rack pricing now discriminates against the rural or farm marketer, since most terminals are located in metropolitan areas. Interestingly enough, the major suppliers have sold all rural bulk plants and farm business to their former distributors and have instead concentrated on metropolitan markets.

Changes in credit terms: The 1-percent cash discount has gone the way of the Edsel automobile. Today most invoices are net or due upon receipt, and there is apprehension that moves by suppliers to shorten time allowed for payment of invoices will eventually lead to cash on delivery at wholesale racks. Some now require letters of credit or authorization to draft the customer's account. The result is a reduced cash flow to the marketer.

Credit card fees—and you have heard about them—virtually every major oil company has assessed a credit card fee for the use of their card. The card has previously been considered a basic marketing tool, but the cost is now passed to the marketer. The major suppliers have instituted a program of "discount for cash," which is in reality an effort to disguise credit card surcharges. The use of the discount program marketwide will eventually rip weak markets to shreds, esulting in little if any margin to the independent marketer.

It is a known fact that there is a worldwide crude oil surplus. Today refinery utilization is less than 68 percent, as compared to 92 percent a number of years ago. One would conclude a simple solution would be to offer product to those requesting additional supply. Instead, the major suppliers have chosen to offer retail discounts to sell below competition. They have limited the supply to their jobbers yet provided unlimited amounts to retailers who will price at submarket price levels.

The Federal Government is also a participant, as they have provided favored tax legislation such as provisions for pricing and transportation of North Slope oil, the windfall profits tax exemption, foreign tax treatment, and many others. These benefits have flowed directly to the major supplier, permitting them to pursue anticompetitive practices. It is interesting to note that Arco, as a recipient of the North Slope benefit, posted a profit gain for the first half of 1982.

Historically, the major refiners gave a poor track record of profit performance at the retail level. Therefore, without favored legislation they could not compete at the retail level profitably. The independent marketer needs a fair shake. He does not and should not have an umbrella of protection, but then neither should the competition, the larger major suppliers.

There are, however, solutions to the problems, which I would like to list:

First is increased efforts by the U.S. Department of Justice and the Federal Trade Commission to enforce alleged refiner violations of existing antitrust laws.

Second, Congress should initiate investigative hearings into current marketing problems and into Federal enforcement policies concerning alleged violations.

Third, develop a specifically designed Federal divorcement/divestiture legislation tailored to address overall problems of the gasoline marketplace.

Fourth is a choice of either divestiture of all crude oil holdings or retail marketing operations.

Fifth, develop a full slate of State legislative or other remedies to address predatory supplier activities in each State.

Last is a full disclosure financial reporting legislation requiring publication of transfer prices for each major supplier at crude, transportation, and marketing levels accompanied with an antitrust amendment that puts meaning into the laws.

For the present, Senator Dixon, I only request that you initiate investigative hearings through the Senate Small Business Committee and consider the other solutions at that time.

Independent petroleum marketers are caught in the middle of a fight for market control by the major refiners who are using very similar tactics to achieve their purpose. The net effect is to put the company-owned stations against the independent marketer at uneven odds. The major suppliers are so large and powerful that they can eliminate the independent small business marketer without feeling any pain or remorse. All that we ask is fairness, not ruthlessness.

Thank you very much, Senator.

Senator DIXON. Thank you, Mr. Stewart.

Next we have Mr. Jon Ware of Ware Oil Co., in Jacksonville, Ill.

Good morning, Mr. Ware.

STATEMENT OF JON WARE, WARELUBCO, INC., JACKSONVILLE, ILL.

Mr. WARE. Good morning, Senator and members of the Committee on Small Business.

I am happy to be here this morning to inform you of the possible disaster within our industry created by the integrated oil companies.

My name is Jon Ware. I am an officer and a major stockholder in Warelubco, Inc., Jacksonville, Ill., a family business started in 1931. Although we purchase our product from major oil companies, our company is independent and not owned in any part by an integrated oil company.

Addressing the problem, consumption of fuel is decreasing every month. Profits will have to made on less sales. Major oil companies have curtailed production and closed some refineries, resulting in less fuel on the market, and in some instances product that was available to the unbranded segment is not now available. This allows the majors to control not only the wholesale price but also the retail or street price.

Some major pricing suggests predatory pricing, direct subsidization of company-operated or dealer-operated stations receiving a compensation for selling at a below-cost level.

Some majors subsidize their marketing units with profits from other aspects such as crude oil, refining, and transportation.

It seems to us that the integrated oil companies have set a course to eliminate from the street that competition which has kept the majors from complete domination of the marketplace. This will create a tremendous expense to the public.

There are some major oil companies withdrawing from geographical areas of our country because the net back is greater in another area. In doing this, it seems that the majors are dividing up the United States into yours and mine segments.

We know that the integrated oil companies control the product from below ground until the customer burns the fuel in his car or truck. They control the product availability as well as the price of that product in all aspects. If allowed to continue, it will surely eliminate those who do not have the availability of crude, refining, or transportation. I cannot visualize our country without competition.

Our business has been successful for many years. It made it through the Depression, through the war, the shortage of product embargo, and other things. Now we are faced with the danger of our elimination, and there is no way to fight. For instance, in Decatur, Ill., our cost is $1.163; Shell Oil Co., at the time of this writing, was selling, over the street, at $1.139 direct dealer. There is absolutely no way for us to be competitive in the marketplace where we are forced to sell below cost.

Since the 1930's when the majors moved the price at will, the independents brought competitiveness to the marketplace. At the present time the majors are playing with the price and trying to create goodwill with the customer, when, in the long term, they want complete domination. If you remember during the shortage, the majors were always 5 cents or more above the independents. Normally, the reason the independents can sell more reasonably than the majors is because we have less overhead.

Although we complain about the majors, there are certain majors that have been decent to the independent brands. If the major retail outlets were made to sink or swim, as ours have to do, without subsidization, I feel certain that there would be a different philosophy in the marketplace.

Thank you.

Senator DIXON. Thank you very much, Mr. Ware.

Can you ladies and gentlemen in the audience hear all right in the audience? I know you are all interested in these questions. Is there difficulty out there?

[Chorus of yeses.]

Senator DIXON. I wonder if there is someone here who is understanding about the electronic system.

I want to apologize to the audience. I did not know you could not hear out there. If we can have a moment to try to address this problem.

[Brief pause.]

Senator DIXON. You can hear me all right now?

You witnesses have a challenge. I am pretty much of a loudmouth; they can hear me; you will have to speak up.

Mr. Lester Wright of J. & L. Oil, Inc., in Vernon Hills, Ill., is our next witness.

Lester, I wonder if you would try to speak directly into that mike, and let us see if the folks can hear you.

I apologize to everyone.

Madam court reporter, you do have the prepared text of the first three witnesses, so that nothing is lost from the record; we all understand that.

Go right ahead, Mr. Wright, and then whatever else you need to develop we will develop in the question-and-answer period.

STATEMENT OF LESTER WRIGHT, PRESIDENT, J. & L. OIL, INC., VERNON HILLS, ILL.

Mr. WRIGHT. Thank you, Mr. Chairman.

Good morning, Senator Dixon and members of the Select Committee on Small Business, fellow oilmen, and the media. I am happy to be here to attempt to explain the plight of the independent gasoline marketers in this country.

My name is Lester Wright. I am the president and majority stockholder of a closely held family corporation, J&L Oil, Inc., of Vernon Hills, Ill. The other stockholders are my children. This is my 50th year in the service station marketing business and my 32d year in business for myself. I have never worked for anyone other than independent marketers such as Martin Oil and J. D. Street & Co. All I know is gasoline marketing, and I am beginning to wonder if I know anything about that.

Senator DIXON. Do not worry, Mr. Wright. I have been in politics 33 years, and I am beginning to wonder if I know anything about that. [Laughter.]

Mr. WRIGHT. Now, addressing our problem, I make the following serious charges.

Some of the integrated oil companies—majors, in other words—have subsidized their marketing operations from profits of other departments such as crude oil, refining, transportation, and with extremely unfair tax advantages.

Two, the Department of Energy has failed to carry out its mandate to preserve the structure of competition in the marketing of gasoline and to protect the nonbranded marketer.

Three, some majors have at times subsidized their direct company operations.

Four, most majors have refused to sell unbranded gasoline on a contract basis to unbranded marketers.

Five, most major oil companies from coast to coast are resorting more and more to predatory pricing.

Six, it appears major oil companies have been on a well orchestrated plan of action to eliminate jobbers.

Seven, the integrated companies are on a campaign to convert their many key stations to direct company operation to control the retail price.

Eight, these same large oil companies are withdrawing from their traditional markets on what appears to be an organized scheme to divvy up the markets in this country to each company's best advantage marketwise.

Nine, major oil companies control the transportation of petroleum products. Integrated oil companies have been able to deny large independent traders access to the gathering lines where they could buy products from independent producers.

By controlling the gathering lines, the majors' dominance over crude oil is greater than their own production. More than 75 percent of the finished product pipeline capacity is owned and controlled by the majors.

Ten, there is a well-designed and thought-out plan by the majors to completely eliminate independent marketers from the scene and to integrate forward into direct marketing at an ultimate tremendous expense to the American public.

Make no mistake about it, if the majors succeed in eliminating the independents, there will be little competition at the pump. My charges are serious, and Congress must take stock of what is happening.

Now let us address my tenth point. The plan by the majors to eliminate the unbranded marketers from the scene; this is what I am concerned about—my possible failure in this business. After 50 years, I would like to leave my children and loyal employees a better legacy.

We at J&L Oil are no slouches at running our business. We work at it and strive to beat the published operating figures and percentages for our business operations, and we generally beat all of them, but we cannot beat the present system. We and most other independent marketers are losing money and have for the past 2 years.

How do you cope with a station in Evanston, Ill., selling regular at $1.219—this is ours—giving us a gross margin of 42 cents per gallon, but our competitor down the street, Arco, is selling at $1.179 per gallon? If we met their price, our margin would be two-tenths of a cent a gallon.

In Zion, Ill., we have an Arco station selling for $1.13 per gallon. Our wholesale cost is $1.138.

In Aurora, Ill., where we have three stations, our wholesale cost is $1.145 per gallon, more than the retail price of most major stations. We have lost one-third of our gallonage in the last year. We are attempting to hold on and survive, period.

Standard Oil of Indiana—Amoco—in their annual financial statement for 1980 stated they lost $338 million in marketing. If the other major oil companies were as honest in their accounting statements, the losses would be tremendous, but when you have subsidized black gold coming out of the ground, you can afford tremendous losses in one department to get rid of the product.

Many majors are granting special allowances to dealers to beat competition and post predatory prices. Arco, for example, is on a nationwide announced plan to sell only for cash at 3 cents per gallon below competition, and their officials have openly admitted they have doubled their business with their predatory prices.

Major oil companies increased their direct outlets by 25 percent in the year of 1980. It is generally believed that the growth in direct outlets is considerably understated. The percent of gasoline sold through refiner-direct-operated units has grown from 13 percent in 1972 to 26 percent by April 1979.

Senator DIXON. Could I interrupt at that point?

Mr. WRIGHT. Yes.

Senator DIXON. I wonder how that squares with Mr. Deutsch's earlier figures that the percentage of the product handled by the jobbers has been growing every year through 1980.

Mr. WRIGHT. The point I am trying to make here, Senator, is that the majors are taking their key stations and trying to set the price at the marketplace—the big markets—and their stations have grown tremendously.

The figures I have were obtained from Prof. Fred Allvine, who is an authority in this business.

Senator DIXON. All right. I did not mean to interrupt, because I was going to wait until all of you had testified, but there seems to be some conflict about whether the jobbers' share of the market has grown each year, as you suggested, Mr. Deutsch, and Mr. Wright's suggestion that the refiner direct sales have almost doubled between 1972 and 1979. Is there an explanation of that?

Mr. DEUTSCH. On the gallonage figures, you have got to remember, overall, the gallonage in the State of Illinois goes down, but that is a percentage of the gallonage. So there can be a difference there from what they would have and what we would have, because he takes nationwide and we take Illinois.

Mr. POTVIN. There is a further explanation, I believe, Mr. Chairman.

During the years of control, the jobbers' share did increase. There was one part of the controls that worked. The free market was allowed to operate to this degree: If population or traffic shifted to a new route or neighborhood, you could put new gallonage there in new outlets or perhaps "upward-certify," as they say, existing outlets. Jobbers did an excellent job of responding to those market forces; their share did increase.

Since decontrol there has been a concerted—some would say—calculated drive to reduce the jobbers' share. As an example, Ellis Gunnells, marketing vice president of Texaco told his brand committee meeting in San Francisco approximately 6 months ago that jobbers have 60 percent of the Texaco volume and that Texaco was going to reduce it to 50 percent—this sort of thing. So it is a time sequence lag.

Senator DIXON. We will revisit it later.

Pardon me for interrupting you, Mr. Wright. I just wondered about that.

Mr. WRIGHT. Addressing that point, the point I was trying to make, Senator, is that the major oil companies, through their direct station operations, have increased their gallonage dramatically and are moving in that direction. It is very obvious that their intent is to set the price in the major markets of this country. They are doing it here in Chicago and in many other major cities. My statements about majors refusing to sell unbranded marketers, the failure of DOE to carry out its mandate, the elimination of dealers and jobbers by majors, majors' control of transportation of petroleum products, majors favoring their own direct operation, are all well documented and can be verified by anyone if needed and do not need to be addressed here today.

My suggestion for a solution to the dilemma of the unbranded marketers and major jobbers and dealers is as follows:

Congress must pass a law outlawing major oil companies from being involved in any manner in the marketing of gasoline and other products through retail outlets.

Such a law must also require all refiners to sell to all purchasers at their loading racks in tractor-trailer load quantities at the same price and on the same terms.

Major oil companies must also be required to reveal honestly, periodically, the results of their integrated operations by departments; for example, crude production, transportation, refining, and marketing.

If you had asked me to sanction those three things 3 years ago, I would have said I would never join such a movement, but the majors have brought us to that point.

In fairness, I must give credit to my prime supplier, Marathon Oil Co., as being a good supplier. They treated us fairly during the periods of short supply. Now they either cannot or will not reduce wholesale prices sufficiently to permit us to compete with the majors' present battle for market share.

Gentlemen, the subject I have attempted to address is somewhat complicated, but I have attempted to be as brief as possible but be as detailed as will permit you to understand the problem.

At this point I have a little evidence that I would like to enter. This Friday afternoon within a 10-mile arc of my office in Vernon Hills, Ill., I went out and took some pictures of major oil companies' prices. I am going to submit the photos with the days they were taken and the location.

Here is a 76 station in Lake Villa, Ill., with a price of $1.159 on regular. This is dated 10/8/82.

Here is a Mobil station in Hawley Mundelein, Ill., dated 10/8/82, with a price of $1.149.

Here is an Arco station on Route 45, Half Day, Ill., at $1.149.

Here is a 76 station in Round Lake at $1.149, a Texaco station in Half Day at $1.159, a Shell station in Mundelein, Ill., at $1.159, and an Amoco station in Mundelein at $1.169.

How does that relate to what we are talking about here today? I am going to submit some of my suppliers' invoices along about the same date to show you that my laid-in cost is $1.135 on regular.

Senator DIXON. Of course the judicial rules of evidence, in a strict manner, do not apply here, Mr. Wright. We will admit these into the record. What date did you say these pictures were taken?

Mr. WRIGHT. Friday—it is on the back.

Senator DIXON. October 8, 1982.

Mark those as exhibits, and we will admit those along with those invoices, with the understanding that this is admitted under the very liberal interpretation of what we do in hearings involving matters before us in the U.S. Senate but not under the rules of evidence that would apply under circumstances in a court of law.

[Material referred to follows:]

Date -- 10/8/82
Location -- Route 45 & 83
Lundelein, Ill.

Date -- 10/8/82
Location -- Route 45 & 83
Lundelein, Ill.

Date -- 10/8/82
Location -- Route 45
Half Day, Ill.

Date -- 10-8-82
Location -- Rollins Road &
Round Lake Ave.
Round Lake Beach, Ill.

Date -- 10/8/82
Location -- Route 45
Half Day, Ill.

Date -- 10/8/82
Location -- Route 45 & Hawley
Lundelein, Ill.

Date -- 10/8/82
Location -- Route 932 & Milwaukee Ave.
Lake Villa, Ill.

1 #43

SHIPPED FROM	DATE SHIPPED	SHIPPED VIA	FOR	INVOICE DATE	INVOICE NO.
MT PROSPECT IL 190016	10 06 82	ECONOMY SVC 10001	SOURCE-COLLECT	10 07 82	701449

SOLD TO
J & L OIL INC
204 RT 45
VERNON HILLS ILLINOIS 60061

CUSTOMER NUMBER
590393-5
0010124

SHIPPED TO
SAME
ILLINOIS DESTINATIONS

CUSTOMER'S ORDER NO.

TICKET NO.	DESCRIPTION		TEMP. PACKAGES NO.	GRAV. PACKAGES KIND	GROSS QTY.	BILLED QTY.	UNIT PRICE	AMOUNT
168678	REGULAR LEADED GASO	2,787			2,800	2,800	.95000	2,660.00
168678	UNLEADED REGULAR GASO	998			1,003	1,003	.98500	987.96
168678	SUPER UNLEADED GASO	2,486			2,499	2,499	1.03000	2,573.97
	ILL MFT LICENSE NO 3212							
	FED TAX ASSUMED BY VENDEE							

	REGULAR	UNLEADED
BASE COST	.9500	.9850
HAULING	.015	.015
ILLINOIS M.F.T.	.075	.075
FEDERAL TAX	.04	.04
ILL. SALES TAX	.055	.055
TOTAL →	$1.135	$1.17 PER GAL

RECEIVED OCT 11 1982

REMI	TERMS	DISCOUNT	IF PAID BY	INVOICE TOTAL
: 24-	NET 10			6,221.93

SPORTATION CHARGES DRUM DEPOSITS OR TAXES

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11-636 O—82—8

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	ILL MFT LICENSE NO 3212							
	FED TAX ASSUMED BY VENDEE							

	REGULAR	UNLEADED
BASE COST	.9500	.9850
HAULING	.015	.015
ILLINOIS M.F.T.	.075	.075
FEDERAL TAX	.04	.04
ILL. SALES TAX	.055	.055
TOTAL →	$1.135	$1.17 PER GAL

RECEIVED OCT 11 1982

OCT 11 82

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SPORTATION CHARGES DRUM DEPOSITS OR TAXES

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	ILL MFT LICENSE NO 3212							
	FED TAX ASSUMED BY VENDEE							

	REGULAR	UNLEADED
BASE COST	.9500	.9850
HAULING	.015	.015
ILLINOIS M.F.T.	.075	.075
FEDERAL TAX	.04	.04
ILL. SALES TAX	.055	.055
TOTAL →	$1.135	$1.17 PER GAL

RECEIVED OCT 11 1982

OCT 11

REMIT	TERMS	DISCOUNT	IF PAID BY	INVOICE TOTAL
: 24-	NET 10			6,221.93

SPORTATION CHARGES DRUM DEPOSITS OR TAXES

1

31

#28

SHIPPED FROM	DATE SHIPPED	SHIPPED VIA	FOB	INVOICE DATE	INVOICE NO.
MT PROSPECT ILL 190016	10 05 82	KANEY 10001	SOURCE-COLLECT	10 06 82	699494

J & L OIL INC
204 RT 45
VERNON HILLS ILLINOIS 60061

CUSTOMER NUMBER
590393-5
0010136

SHIPPED TO
SAME
ILLINOIS DESTINATIONS

CUSTOMER ORDER NO.

TICKET NO.	DESCRIPTION	TEMP. GROSS PACKAGE NO.	TEMP. GROSS PACKAGE KIND	GROSS QTY.	BILLED QTY.	UNIT PRICE	AMOUNT
168500	REGULAR LEADED GASO 2,590			2,600	2,600	.95000	2,470.00
168500	UNLEADED REGULAR GASO 4,978			5,000	5,000	.98500	4,925.00
	ILL MFT LICENSE NO 3212						
	FED TAX ASSUMED BY VENDEE						

	REGULAR	UNLEADED
BASE COST	.9500	.985
HAULING	.015	.015
ILLINOIS M.F.T.	.075	.075
FEDERAL TAX	.04	.04
ILL. SALES TAX	.055	.055
TOTAL →	$1.135	$1.170

PER GAL. NET

REMIT TO

24-2

TERMS	DISCOUNT	IF PAID BY	INVOICE TOTAL
10 .	[illegible]		7,395.00

STATION CHARGES DRUM DEPOSITS OR TAXES

1

32

01 02

#28

SHIPPED FROM	DATE SHIPPED	SHIPPED VIA	F.O.B.	INVOICE DATE	INVOICE NO.
MT PROSPECT ILL 190016	10 05 82	KANEY 10001	SOURCE-COLLECT	10 06 82	699494

J & L OIL INC
204 RT 45
VERNON HILLS ILLINOIS 60061

CUSTOMER NUMBER
590393-5
0010136

SHIPPED TO
SAME
ILLINOIS DESTINATIONS

CUSTOMER'S ORDER NO.

TICKET NO.	DESCRIPTION		TEMP. GR.V. PACKAGE NO.	TEMP. GR.V. PACKAGE KIND	GROSS QTY.	BILLED QTY.	UNIT PRICE	AMOUNT
168500	REGULAR LEADED GASO	2,590			2,600	2,600	.95000	2,470.00
168500	UNLEADED REGULAR GASO	4,978			5,000	5,000	.98500	4,925.00
	ILL MFT LICENSE NO 3212							
	FED TAX ASSUMED BY VENDEE							

	REGULAR	UNLEADED
BASE COST	.9580	.985
HAULING	.015	.015
ILLINOIS M.F.T.	.075	.075
FEDERAL TAX	.04	.04
ILL. SALES TAX	.055	.055
TOTAL →	$1.135	$1.170

PER GAL. [illegible]

REMIT TO	TERMS	DISCOUNT	IF PAID BY	INVOICE TOTAL
24-2	10 .	[illegible]		7,395.00

STATION CHARGES DRUM DEPOSITS OR TAXES

1

33

OL 02

#28

SHIPPED FROM	DATE SHIPPED	SHIPPED VIA	FOB	INVOICE DATE	INVOICE NO.
MT PROSPECT ILL 190016	10 05 82	KANEY 10001	SOURCE-COLLECT	10 06 82	699494

J & L OIL INC
204 RT 45
VERNON HILLS ILLINOIS 60061

CUSTOMER NUMBER
590393-5
0010136

SHIPPED TO
SAME
ILLINOIS DESTINATIONS

CUSTOMER'S ORDER NO.

TICKET NO.	DESCRIPTION		TEMP. GR.V. FACTOR NO.	TEMP. GR.V. FACTOR KIND	GROSS QTY.	BILLED QTY.	UNIT PRICE	AMOUNT
168500	REGULAR LEADED GASO	2,590			2,600	2,600	.95000	2,470.00
168500	UNLEADED REGULAR GASO	4,978			5,000	5,000	.98500	4,925.00
	ILL MFT LICENSE NO 3212							
	FED TAX ASSUMED BY VENDEE							

	REGULAR	UNLEADED
BASE COST	.9500	.985
HAULING	.015	.015
ILLINOIS M.F.T.	.075	.075
FEDERAL TAX	.04	.04
ILL. SALES TAX	.055	.055
TOTAL →	$1.135	$1.170

PER GALLON

REMIT TO
24-2

TERMS	DISCOUNT	IF PAID BY	INVOICE TOTAL
10	[illegible]		7,395.00

STATION CHARGES DRUM DEPOSITS OR TAXES

1

34

Senator DIXON. Does that conclude your remarks, Mr. Wright?

Mr. WRIGHT. Thank you for allowing me to appear. Please go back, Senator, and do your best with your colleagues to preserve the independent marketers; we need your help.

I will be glad to answer any questions you may have to the best of my ability.

Senator DIXON. Thank you, Mr. Wright.

Our next witness is Mr. Charles Keller of Keller Oil in Effingham, Ill.

Good morning, Mr. Keller.

STATEMENT OF CHARLES KELLER, PRESIDENT, KELLER OIL, EFFINGHAM, ILL.

Mr. KELLER. Good morning, Senator. Thank you very much for allowing me this brief period to appear here.

I am Charles Keller, president of Keller Oil in Effingham, Ill., which is a family owned corporation that has been in business for 53 years. My father started this oil business back during the Depression in 1929.

I am going to be very brief in what I say here today because Mr. Deutsch, Mr. Stewart, and Mr. Ware have very well echoed the sentiments on the way we are all being treated.

I happen to be a Shell jobber. There is a little difference between myself, Mr. Stewart, and Mr. Ware. I am a branded oil marketer.

On July 1 of this year Shell went to what they call terminal pricing. At the time they did that I was one of the three jobbers that pulled out of the Effingham terminal; I pulled 90 percent of the product that came out of the Effingham terminal. With the pricing structure that they used, they pushed product through the Effingham terminal to Terre Haute, Ind., and the fuel price at Terre Haute, Ind., is 2 cents a gallon less than it is in Effingham, Ill., which makes it uneconomical for me to compete with them, bringing gasoline in from Indiana to the Effingham area, which we can haul cheaper than my supplier can. In other words, it is making us look elsewhere for other supplies.

The other thing that happens is that there used to be a margin between the jobber and the dealer that you could sell a dealer economically. I happen to haul out of four different terminals for Shell—Fort River terminal, Effingham, Harristown, and Cape Ferard. It so happens that 90 percent of my product happens to be from the Effingham terminal—it used to be. Now, of course, I am going to other terminals to compete in the marketplace. Still at that, there is no margin left anymore between the jobber and the dealer; it is just nonexistent.

Right now, today, I just checked the prices out. The margin is around 2 cents a gallon. You do not have the freight allowance anymore. That makes it come back to less than a half-cent a gallon that you can market at. You tell me how you can invest thousands of dollars in your business, and upgrade it, and stay in business today. There is not a jobber I know of who is making money today.

The other thing is this. I have had two accounts just across the street from my office with whom I have had a longstanding relationship, since 1973. My major supplier decided to sell them direct

rather than coming through me. They found out through controls that I would supply this outfit.

The excuse you get back when you go to try to do something about this—and this was a substantial amount of gallons—is the fact that the people across the street, first of all, were what they considered to be national accounts. Second, it is commercial versus the wholesale jobber business, and they are trying to increase their share in their commercial department.

They give you the excuse, one hand does not know what the other hand is doing because they are two separate divisions like two separate oil companies.

Well, in my business we have one division that does nothing but call on industry and the rest handles service stations, but I will be darned if I would not know what was going on—if the left hand did not know what the right hand was doing. We would not be out cutting each other's throats.

Also, in May of this year Shell had put some limits on the amount of gasoline that could be pulled. The jobber ended up being 100 percent. A dealer who pulled over 70 percent of his volume got a rebate of 2 cents a gallon. Such things as this have been going on for the past year since controls have been off. This type of thing has really hurt people in our type of business.

I would really like to get along with my supplier. I never wanted any Government controls. In fact, I think you will remember that I was one in Washington who really wanted to get Government out of our business, but I am pushed up against the wall and do not really know where to turn today but to look for some type of help from the Government. I do not know what this type of help is going to be.

As Jon Ware was saying, the retail price of fuel was at $1.139 at the Shell stations—and they were getting support at that time. The jobber price—my price for product to deliver—was $1.161 coming from the same companies. So you can see what type of margin I had if I was going to sell to dealer-operated stations, which is my chief method of distribution. There was no margin.

That is all over. There are several programs that they have available to their dealers that are not available to jobber-dealers. I think this is unfair, especially since this is supposed to be one family. You come into a Shell station in Belleville, Ill., or Chicago, Ill., and you come into a Shell station wherever it might be—in Glen Ellyn, Ill., or Effingham, Ill. You expect to get the same type of service and treatment and the same programs to be available for you, and they are not.

I wish they would do it. I would love to get along with my supplier 100 percent. I always said before that we had a happy marriage and love affair. I wish we could go back to those days where we could get along with our supplier.

As I said, I concur with about everything that has been said here by the people I mentioned. I am not going to bore this committee with long testimony.

Thank you.

Senator DIXON. Thank you very much, Mr. Keller.

May I suggest that we may have some time problems here, Mr. Shearon and Mr. Clauss, unless you can move along rather rapidly,

because we wanted to divide this hearing fairly between the jobbers, the retailers, and the majors.

I do not know necessarily that everyone will need the same amount of time, but we are going to have serious time constraints if we do not try to shorten it just a little.

Mr. William Shearon of Shearon Petroleum in Woodstock. I am not trying to race you along, Mr. Shearon, but if we could get to the question-and-answer period, we could probably elicit a good deal more facts.

STATEMENT OF WILLIAM T. SHEARON, PRESIDENT, SHEARON, INC., HARVARD, ILL.

Mr. SHEARON. Fine, Senator. I will try to speed it along.

My name is William Shearon, and I am president of Shearon, Inc., in Harvard, Ill. I am a branded Standard jobber and branded Marathon distributor. I provide to approximately 5,000 customers gasoline, diesel fuels, home heating oil, and motor oils. My sales to these customers are 60 percent agriculture, 15 percent commercial, 10 percent home heating oil, and 15 percent resellers. I service 65 percent of my accounts from my bulk plants in tankwagon delivery trucks and 35 percent by large transport trucks.

As a rural branded petroleum marketer, I am concerned about the existence of the branded marketer in a marketplace where the majority of major oil companies are trying to eliminate or curtail the branded marketers' functions. I would like to briefly outline the reasons for my opinions, using my two suppliers, Standard Oil and Marathon Petroleum, as examples.

Standard Oil seems to be, in my opinion, trying to curtail or eliminate the traditional jobber function in the marketplace. Since decontrol of the oil industry, this has been done in the following manner:

Standard has sold products to super jobbers below jobber buying price. Standard has sold product to end users below jobber buying price. They have put in a charge for credit card programs, which has eliminated the traditional jobber margin. They have changed the credit terms to the jobber, and they have restricted the jobber from branding small retail dealer outlets.

All of these points have been presented to Standard in meetings but seem to be of small concern in an uncontrolled environment.

I feel that the best summarization was from a Standard Oil executive that stated that there are too many jobbers in the State of Illinois. In general, I feel that Standard only wants a small number of jobbers to supply customers that are not economically feasible for Standard direct marketing.

Marathon Petroleum, a small major refiner, has a different perspective of its marketing function. I say marketing function because Marathon is unique in the respect that it has a jobber class of trade and a distributor class of trade, both carrying the Marathon brand name.

Briefly, the difference in these classes of trade are, the jobber class provides branded product and the use of the trademark. The distributor class receives the same as the jobber plus other services such as accounts receivable, advertising, and petroleum equipment.

For these extra services the distributor pays a higher cost for his purchases than the jobber.

As the chairman for the Marathon Branded Marketers of Illinois, I can truly say that since decontrol Marathon, to my knowledge, has not changed its traditional branded functions. In the same respect, during this period of decontrol, Marathon branded products have been in the marketplace.

The Marathon branded marketers are concerned on three main points: One, will Marathon have to eliminate or curtail the branded marketer's functions to stay competitive with other major oil companies? Two, our present uncompetitiveness in the marketplace; and three, is the possibility of Marathon changing their marketing policies to create a stronger class of trade.

Recently a group of branded Marathon marketers met with Marathon management, and we discussed in detail the problems the branded marketers were having and strongly suggested that Marathon upper management be included in an open discussion with marketers to create an aggressive marketers' program. As chairman, I have been assured that upper management is aware of our concerns and are in the process of considering our proposals.

In summary, if the majority of major oil companies are allowed to create undue hardship to the petroleum marketer in an uncontrolled environment, I feel that legislation must be enacted to insure the vital existence of the petroleum marketer function.

Suggested legislation should provide a petroleum marketer with protection for the marketer function, a marketer margin to be recognized, stop major oil companies' predatory pricing, provide the basis for the price major oil companies charge to the several classes of trade, strengthen the protection provided by the Petroleum Marketing Practices Act, and not allow a major refiner to subsidize from their refiners or production profit.

Thank you for the opportunity to testify.

Senator DIXON. Thank you, Mr. Shearon.

Our last witness is Mr. Donald Clauss of Clauss Heating Oil, Inc., Melrose Park, Ill., of the Oil Heat Marketers of Chicago.

Mr. Spena is also a witness.

Gentlemen, our time is becoming a very serious problem here, so I would urge you once again to act in the interest of brevity. Your whole statement will go into the record. A considerable amount of this is somewhat repetitious, and while I appreciate the fact that you want to make your point, I think the question-and-answer period would yield a good deal more.

Mr. Clauss?

STATEMENT OF DONALD CLAUSS, CLAUSS HEATING OIL, INC., MELROSE PARK, ILL.

Mr. CLAUSS. Thank you, Senator.

As you indicated, I am Donald Clauss. I am here principally as president of the Oil Marketers Association of Chicago, basically a group of branded and unbranded jobbers serving Chicago and the surrounding counties.

One of our big concerns of the last 6 months has been the adequacy of supply of heating oils and diesel fuels and the unfair way, in our opinion, this problem is being handled by the suppliers.

Most of us operate under supply contracts of 1 year's duration, and too often these contracts are completed and delivered to us substantially after the start of the contract period.

As an example of that, one of our members was denied two bargeloads of products by his supplier in a period of tight supply this spring because he was unaware of the changes in allocations over the previous contract period. He received his contract approximately 90 days into the contract period.

Contract allocations are still with us even though the President removed controls 20 months ago. These contract allocations are oftentimes arbitrarily cut and altered by as much as 25 percent without consultation or negotiation between supplier and jobber, yet the same supplier cut the member 25 percent without soliciting and signing up new accounts, while cutting back the supplies of his existing jobbers.

In periods of inventory liquidation and oversupply, such as we had early this spring and late last winter, some members were encouraged to overlift on their allocations by the supplier's representative, and yet when supply became tight in April, May, and June, they then took the overlift away from the second quarter allocations, putting the guys in a heck of a bind.

The majors give us little or no allowances for variances for weather, economic ups and downs, and other factors which can affect our consumer demand drastically.

Product prices are increasingly a problem as a number of suppliers are being reduced by mergers, buy-outs, and so forth among the major companies, and the quitting or forcing out of business of the smaller independent refiners.

In times of tight supply, jobbers with more than one supplier may find a variance of anywhere from 5 to 10 cents a gallon for the same product between the various buyers, but he must buy the high-priced product because of his allocations and his desire to keep those allocations for next year. Better off is that jobber with multiple suppliers, however, than the jobber with only one high-priced supplier.

In the eyes of the consumer, the jobber with the high-priced supplier is gouging the public, and small business gets another black eye while the multinational supplier makes obscene profits.

Along with the price lines, some of the majors have aggressively reactivated their commercial sales drive. We have heard a discussion of that already. I would like to give you an example however. On September 25, 1982, Amoco's No. 2 distillate terminal price to us, as jobbers, was 97 cents a gallon. Amoco's delivered price through the commercial sales department was 94.65 cents per gallon for the same product.

We note, too, that when our jobber prices are increased--and they have been increased a nickel a gallon on this list in the last 30 days—the commercial sales department lagged 7 to 10 days before increasing the price to the consumer. During that period they aggressively called on our accounts—the big volume accounts—and said, "Hey, we have got this price for you. It is going

to go up in another 7 or 8 days. Better take advantage of it." We lost a lot of business that way.

Traditional price and supplier relationships are currently completely askew in the gasoline and heating oil and diesel fuel markets. A look at the posted prices in last Thursday's Wall Street Journal tells the story.

New York harbor barge prices for No. 2 oil were 99.75 cents per gallon; regular grade gasoline was 7 cents a gallon less and unleaded regular 95.75. The same quotes show prices a year ago were 96.50, 99.25, and 101.25, respectively, for the same products.

This same source, the Wall Street Journal, indicates that the October 1, 1982, inventory of light fuel oil stocks were 163 million barrels, down 2 million barrels from the previous week, compared to an inventory of 210 million barrels a year before.

These inventory figures, in spite of repeated pleas from the jobber groups since June that light oil stocks need rebuilding, remain in effect. The major response: No additional rebuilding needed. The result: Farmers are paying more for diesel fuel now than a year ago. Oil heat prices have not dropped correspondingly with gasoline prices, and inventories are at the lowest point in years although a colder than normal winter is predicted for the oil burning section of this country.

Other problems exist, but, as you say, time limits their discussion here.

We are not asking for controls. Nor are we asking for additional laws. We are asking for a little more cooperation from the majors, a bit more aggressive enforcement of the laws already in existence on the books. We think this hearing, Senator, will have been a big help.

We appreciate the opportunity to speak our piece and perhaps to make peace with our suppliers through better understanding.

Thank you.

Senator DIXON. Thank you, Mr. Clauss.

Mr. Spena from Chicago is our next witness.

STATEMENT OF PETER A. SPENA, CHICAGO, ILL.

Mr. SPENA. Thank you. Good morning, Senator Dixon, committee members, and distinguished members of our panel.

Senator DIXON. Would you give your full name and whom you represent?

Mr. SPENA. Surely. My name is Peter A. Spena.

Senator DIXON. Pardon me, Mr. Spena. Would you speak into the mike? You understand our time constraints. There are really only 3 minutes left for this section.

Mr. SPENA. All right. What I will do is cut down the statement specifically. What you have in front of you probably will not jibe 100 percent.

Senator DIXON. OK, but we will put your statement in the record. Do you have it at hand?

Mr. SPENA. They have copies.

Senator DIXON. Good.

Mr. SPENA. I am associated with Valley Petroleum, Inc. We are branded Amoco jobbers with offices in St. Charles and Wheaton,

Ill. I have been asked by the Illinois Petroleum Marketers Association to participate on this panel. My area of contribution will be Amoco's DFC—in other words, the discount for cash program—as it applies to jobbers.

The program has been discussed with Amoco at various levels of management both publicly and privately. They are aware of my comments today and in detail.

We also have a contractual arrangement with Amoco, and with that of course goes the responsibility of representing them on their terms on the highest level possible in line with good business practices for mutual benefits.

We are told that they are taking our problems with DFC into consideration, but in the meantime we continue to lose many on the retail level.

In order to conserve time again, let me come right to the point and use a recently constructed Amoco station in Geneva, Ill., as an example. The DFC program is being run as it was recommended by Amoco. In other words, it is being implemented exactly as Amoco has suggested. They were told at the very beginning that DFC—the service station—that DFC would result in the loss of $3,380 in net profit for the first month, and they were right. In the first month they lost almost $3,380 in net profit.

DFC for the jobber has resulted in less business and less profit. I believe Amoco wants to be fair, but in order to do that they must immediately pass on the same rebates to jobbers as they now offer to their own class of retail trade.

The DFC program was previously set up by Amoco to bolster direct retail gallonage and profits. We believe Amoco did not do their homework as to how it should apply to the jobbers. It could be a tool for both jobbers and dealers, provided it is applied equitably and fairly. It is not provided equitably when the dealer receives 2.8-cents-a-gallon rebate and the jobber receives 0.8 cent.

DFC assures dealers a lower buying price than jobbers, taking into account the jobbers' cost of marketing Amoco gasoline.

Briefly, DFC for jobbers has resulted in lower margins to jobber service stations and especially pumpers, no significant gallonage increase in jobber pumpers; credit card costs are not competitive, forcing jobbers to lose additional margin; lower margins; no significant gallonage increases and additional costs resulting in lower profits for a previously aggressive jobber.

DFC discourages jobbers from pumper operations. DFC, as applied to jobbers, makes it difficult for the Amoco brand in meaningful locations. Jobber service station dealers cannot sell competitively, especially versus Amoco dealers.

In summary, the initial results of the DFC program as to how it applies to jobbers is very dismal. The program has merit, but adjustments must be made immediately. The use of the credit card should be emphasized, providing Amoco costs are competitive. Jobber versus dealer differentials should be increased, not decreased, in order for the jobber to cover his additional cost of operations.

At this point in time the dealer is purchasing gasoline at a lower price than the jobber, and we believe this is not Amoco's intention. Give the jobbers the same dealer rebate, 2.8 cents at this time for

all gasoline purchasers, and help make the jobber more closely competitive with the Amoco dealers.

Amoco's jobbers have the reputation in the industry of being the most loyal to their supplier, and we believe that Amoco wants to act fairly. However, we feel Amoco is not doing its share with jobbers. We feel that Amoco's upper management is too direct retail oriented and wants the jobber to have a more limited role in this direction.

We hope you appreciate our candid remarks and take them in the spirit of cooperation and survival in which they are offered.

Senator DIXON. Thank you, Mr. Spena.

Let us ask these questions. First of all, how many jobbers are there in this State?

Mr. DEUTSCH. Around 700, Senator Dixon.

Senator DIXON. Around 700, Mr. Deutsch? From what I understand—and I hope everyone in this room who understands more than the chairman of this hearing will take into account the fact that I do not hold myself out as an expert in this area—I take it that this is a contractual relationship that the jobber has with the major oil company, at least in the case of branded jobbers. Is that correct?

Mr. SHEARON. Yes, sir.

Senator DIXON. What about those who are not branded jobbers? Mr. Keller, you of course are a branded jobber. Let me see; Mr. Ware, you are not.

Mr. WARE. We have a contract also.

Senator DIXON. With those who do supply you?

Mr. WARE. Yes.

Senator DIXON. So that while you might buy from, as an example, the same major as Mr. Keller, who is a Shell branded jobber, you do not sell by a brand—sell to the dealer by a branded name.

Mr. WARE. No; we have our own brand, the Wareco brand.

Senator DIXON. Yes. But in each and every case that we are discussing here with the 700-plus jobbers in the State, the relationship is a contractual one.

Mr. DEUTSCH. I might add, Senator, that the jobber—in the past year, the number of jobbers in the State of Illinois has dropped by about 100. We used to be around 800—810 or something like that. It is about 690 right now, so it shows a decrease going on because of the business that is going on.

Senator DIXON. You made the point, Mr. Clauss, I thought interestingly, that there are difficulties with the contractual arrangement with the majors in the sense that there is this impending emergency attitude that is involved when you enter into the contract, but then sometimes you do not receive your copy of the contract until a later period. Is that what your point was?

Mr. CLAUSS. Yes, sir, that is very true. For example, yesterday I received my copy from Amoco of my contract, and it went into effect September 1. They say, well, you use basically the same allocation that you had last year, but while in some cases this is correct, in others this is not correct.

As I indicated in my remarks, one of the jobbers got his contract 3 months late. He found that he was two bargeloads late in getting

the product. They would not honor it. They said, "You left it there on the table," so to speak.

Senator DIXON. I sense some division of opinion, I must candidly admit, among all of you, in this sense: I believe it was you, Mr. Clauss, who said that you are not asking for controls or laws, and it was certainly my old legislative colleague, Mr. Keller, who said that he in the past had always opposed those, but I think clearly Mr. Wright suggested that he supports the type of divestiture law that is suggested by bills pending in the House of Representatives. Is there a division among jobbers about that? Some of you would seem to indicate that you would like to see the free marketplace find the solution to your problem through decently honored contractual relationships between the jobbers, both branded and unbranded, and the majors. Yet I get the idea that some of you are suggesting that you do not believe that will work, and you want to see legislative responses.

Could I have that clarified, perhaps by counsel?

Mr. POTVIN. Mr. Chairman, as usual, you are most perceptive. There is of course a division. On the one hand, marketers—and I think it is probably going to appear in this record that it is equally true of dealers—desperately want to get on with their suppliers. What they want are decent prices, no predatory pricing by the supplier, and that sort of thing.

It seems, though, that there has been precious little cooperation forthcoming. As a result, because of this dissatisfaction, more and more are trooping to the standard of either divorcement or divestiture.

I would like to submit, if I may, several documents. IPNA has taken no position on this.

Senator DIXON. That is your association, Mr. Deutsch?

Mr. DEUTSCH. Yes.

Mr. POTVIN. Two sister associations have conducted polls. NATW, the National Association of Texaco Wholesalers, which is national, finds that 87 percent of their people are so upset with Texaco that they now favor divorcement. The Texas Oil Marketers have done a detailed study of the attitude of their members, and I would like to submit those two for the record, if I may. So there is that division.

Senator DIXON. Have you the courage to suggest, Mr. Deutsch, what the feeling is among the roughly 700 in our State with respect to those almost divergent points of view?

Mr. DEUTSCH. That is a hard one, Senator, but 2 years ago in the Illinois Legislature we had a divestiture bill. We joined the majors in fighting it. I would be almost willing to bet today, if the divestiture bill shows up in the Illinois Legislature—you have been on a hot rock, have you not, every now and again, in the Illinois Legislature? That is just about where I would be.

Senator DIXON. I have been on a hot rock all my life.

Mr. DEUTSCH. I know that our people, as much as they detest it, are leaning that way, because they feel they have been—they are kind of like the girl who got left at the door.

Senator DIXON. I do sense this, though. I am going to represent this to be my feeling about what I hear here. I sense that if everybody could get along, if we could have the happy marriage that

Chuck Keller earlier referred to, if there was some kind of a supply system that worked well and kept everybody pleased, the free marketplace would be the preference of almost everyone here representing a business viewpoint. I suspect that that is the case. I will not pursue that further, but I am going to openly state that that is the impression I get from this mixed bag of responses on that issue.

Without objection, we will include those two surveys Mr. Potvin referred to in the record at this point.

[Material referred to follows:]

As of 9/29/82

National Association of Texaco Wholesalers, Inc.
6551 Loisdale Court/Suite 606/Springfield, Virginia 22150/(703) 922-9784/9785

September 13, 1982

- NATW SURVEY -

The U.S. Senate and House of Representatives Small Business Committees are both expected to conduct hearings, in the near future, in regard to the predatory practices of major refiners since decontrol. The purpose of these hearings will be to air the complaints committee members have been receiving from distributors and retailers concerning actions by major refiners, some of which appear to be violations of anti-trust and restraint of trade laws.

NATW has been asked by both the Senate and House Committees to provide an input in the form of written and/or oral testimony. In order to provide us with information for these hearings, please complete the following survey and return it to NATW in the enclosed self-addressed, postage paid envelope.

- NO NAMES REQUIRED -

Tom West
Executive Director

Total Responses: 250/414 = 60%

SURVEY QUESTIONS

1. What do you consider to be your major concerns in your dealings with Texaco? (Number in order of priority; e.g., 1 being the highest priority)

(/) a. Texaco's direct served retail dealers are purchasing gasoline at prices below or equal to the prices charged me as a wholesale distributor.

(2) b. Texaco has placed maximum limits on amount of product I may pull as a wholesaler, while allowing direct served stations unlimited volume.

(6) c. Texaco has taken some of my accounts from me by selling to them for less than they sell to me as a wholesaler.

(5) d. Service stations (pumpers) owned and operated by Texaco are retailing gasoline below my wholesale cost.

(4) e. Terminal (origin) pricing has caused me to be put in a less competitve position than when I received a hauling allowance.

(3) f. Texaco's credit card fee has caused me to lose business.

(7) g. Texaco is restraining my growth by not increasing my contract volume enough to allow me to take on new business.

(8) h. Texaco has decreased my contract volume below that which I need to serve my existing customers.

(OVER)

Hal Barstow, *President*, Paramount, CA / Shelby Blevins, *Vice President*, Yakima, WA / Jim Kisellus, *Vice President*, Gardner, IL
Roland Robert, Jr., *Secretary*, Hammond, LA / Robert Claytor, *Treasurer*, Winchester, VA / Tom West, *Executive Director*, Springfield, VA

SURVEY QUESTIONS (con't)

2. Are you in favor of retail divorcement legislation which would prohibit refiners from operating their own service stations?

218 (87%) Yes

32 (13%) No

3. Are you in favor of retail divestiture legislation which would not only prohibt refiners from operating their own service stations, but would also prohibit refiners from owning service station properties?

166 (67%) Yes

73 (33%) No

4. Section of U.S. your business is located.

(39) North East
(92) South East
(21) Central Mid West
(5) Upper Mid West
(5) Lower Mid West
(18) North West
(70) South West

5. I market primarily in

(83) a metropolitan area
(139) a rural area

> Note some said both.

Marketers Report

The Texas Oil Marketers Association
701 WEST 15TH STREET AUSTIN TEXAS 78701 512/476-9547

Special Issue

NEWS RELEASE
August 17, 1982

MARKETERS ASK CONGRESS TO RESOLVE UNFAIR MARKETING PRACTICES,
SAY DIVORCEMENT MAY BE THE ANSWER

Concerned over discriminatory actions by petroleum refiners, the Texas Oil Marketers Association's Board of Directors has requested a complete congressional investigation of marketing practices in the oil industry, to be followed by retail divorcement legislation if the abuses are not corrected.

TOMA is composed of more than 850 companies that own, supply or operate chains of branded and unbranded service stations, as well as provide the vast majority of petroleum products to agriculture and commercial accounts. The organization is one of the largest and most politically active oil industry associations in the nation, and had previously been opposed to retail divorcement legislation.

TOMA's Board of Directors, composed of more than 70 marketers in the state that represent every major brand of product marketed in Texas, unanimously requested the congressional investigation. The main problem TOMA outlined was a policy of discriminatory pricing, where refiners raise the price of gasoline or diesel fuel that an independent jobber pays, but do not raise the price to service stations supplied directly by a refiner.

"This action has effectively reduced the margin of profit of jobbers and has forced many out of business," Bill H. Bailey, Jr., president of TOMA noted. "This not only creates an inconvenience for consumers when jobbers' stations are forced to close, but, in the long run, we feel this will result in higher prices to the consumer as a result of decreased competition."

Other problems outlined by the TOMA Board included the implementation of a 3% credit card surcharge that increases costs for marketers and consumers; and moves by oil companies to revise their credit policies, such as discontinuing the 1% discount for early payment and discontinuing freight allowances that refiners have traditionally allowed

to compensate marketers who pick up product in their own transports.

"It is clear that major oil companies are attempting to recover their reduced earnings by forcing dealers, jobbers and consumers to pay higher prices. These attempts by refiners to increase their profits at the expense of marketers are having a devastating impact on small businessmen," Bailey said.

The TOMA president noted that these problems are not isolated to the state of Texas. They are nationwide and have resulted in a significant change in jobbers' attitudes toward legislative remedies. Bailey said that if the refiners do not correct the discriminatory practices, there will be a united effort between jobbers and dealers to pass retail divorcement legislation. This would prohibit oil companies from owning and operating service stations, which would prevent them from favoring these outlets with pricing and allocation policies.

"It is anticipated that a congressional investigation will be held immediately after the elections," Bailey stated. "This will give marketers an opportunity to voice their concerns, and refiners can respond to these abuses and lay out what steps they might take to correct them. If they do not change their discriminatory policies, we will lead a national effort for retail divorcement."

It should be noted that the change in TOMA's position to pursue divorcement follows an extensive campaign by Bailey to resolve the problems between refiners and marketers. The organization has been communicating its concerns directly to the oil companies, but has not received any assurances that the problems will be corrected.

"We will continue to work directly with the supplying oil companies to attempt to correct the abuses in the marketplace. But, the TOMA Board has clearly given us directions to take whatever legislative or legal recourse is necessary to protect the small businesses we represent," Bailey concluded.

The TOMA Board of Directors has also endorsed HR 5362, a congressional bill to prohibit oil companies from assessing credit card surcharges. If the bill does not pass Congress this year, TOMA will pursue state legislation on surcharges.

RESULTS
MEMBERSHIP SURVEY

I. What Are the Major Problems that Refiners are Creating for Your Business?

How Members Ranked the Problems

1. Product is priced too high
2. Implementation of a credit card surcharge
3. Discriminatory pricing policy where a refiner raises jobber price, but not direct operated outlers
4. Elimination of the jobber discount where the refiner raises your price, but not direct supplied dealers
5. Concern that a credit card surcharge will be implemented
6. Refiners going after my dealer or commercial accounts, and supplying them direct
7. Discriminatory allocation policy where refiners place a limitation on jobbers, but not on direct supplied outlets
8. A philosophy that jobbers no longer play a major role in the distribution of their suppliers product
9. Increased emphasis by your refiner on direct salary operations
10. There are no problems with my supplier

Responses of Major Problems by Refiner

Shell - 1. Price; 2. Going after accounts

Chevron - 1. Price; 2. Discriminatory allocation policy

Conoco - 1. Price; 2. Credit card surcharge and pricing favors direct outlets

Shamrock - 1. Responses to few to be usable

Phillips - 1. Credit card surcharge; 2. Price

Kerr McGee-1. Price; 2. Going after accounts and concerned about a surcharge

Fina - 1. Price; 2. Concern about a surcharge

Mobil - 1. Price; 2. Going after accounts and elimination of margin

Texaco - 1. Price; 2. Credit card surcharge, elimination of margin and pricing favoring direct outlets

Exxon - 1. Pricing favors direct outlets; 2. Price and credit card surcharge

Gulf - 1. Price; 2. Price favors direct outlets

Observations on Reponses

Members ranked "product being priced too high" as the biggest problem, by almost a 2-1 margin over any other area. The second major problem would be the combination of discriminatory pricing at refiner direct outlets and elimination of the jobber margin, as these two can be considered closely related. This increases the magnitude of the pricing problems jobbers are facing with major oil companies.

The other major problem concerns credit card surcharges. When you combine those who aleady have a surcharge with those who are concerned their refiner will implement one, it ranks very closely with the discriminatory pricing issue.

It is interesting to note that marketers appear to be less con-concerned about refiners building new direct operations than they are about refiners going after dealer and commercial accounts. Many comments named small independent refiners as a major problem in going after jobber accounts.

The good news in the survey is that discriminatory allocation is not currently a big problem -- as a result of ample supply -- and there is not a strong feeling that refiners feel jobbers no longer play a major role in the distribution of their product.

II. How Do Marketers Rate Prime Suppliers Policies

Allocation

41% - Fair
43% - Discriminates in favor of direct dealer outlets
16% - Discriminates in favor of direct supplier outlets

Pricing

23% - Fair
40% - Discriminates for Direct Dealers
37% - Discriminates for Direct Outlets

Responses by Refiner (First figure is the number indicating fair, second indicates discriminating in favor of dealer outlets and third indicates they discriminate in favor of direct supplied outlets. The first three figures refer to allocation, the second three on pricing.

	Allocation	Pricing
Shell	50%, 38%, 12%	22%, 56%, 22%
Chevron	71%, 29%, 0%	42%, 29%, 29%
Conoco	67%, 0% , 33%	11%, 11%, 78%
Shamrock	50%, 50%, 0%	50%, 0%, 50%

	Allocation	Pricing
Phillips	100%, 0%, 0%	100%, 0%, 0%
Kerr-McGee	100%, 0%, 0%	100%, 0%, 0%
Fina	84%, 8%, 8%	80%, 10%, 10%
Mobil	40%, 40%, 20%	40%, 60%, 0%
Texaco	17%, 51%, 32%	2%, 59%, 46%
Exxon	16%, 53%, 32%	14%, 55%, 41%
Gulf	88%, 6%, 6%	9%, 43%, 48%

Observations

A majority of members feel that refiner allocation policies favor their direct supplied customers, with direct dealers being targeted as the beneficiary of the discrimination. In the pricing area, a vast majority feel that pricing policies are unfair with jobbers almost equally split on whether direct operated outlets or dealers are receiving the greatest advantage.

This reaffirms that pricing is a major problem, but it is not limited to the price jobbers pay for product. Marketers obviously feel they are not being treated equitably and refiners are clearly favoring their direct outlets at the expense of the jobber market.

Credit Card Question Responses

It was interesting to note that marketers who are supplied by refiners who have not implemented a surcharge unanimously felt that the supplier will not implement a surcharge in the near future. This included Shell, Chevron, Shamrock, Kerr McGee, Fina and Mobil.

Those who have been assessed a surcharge show an average 10.5 decline in volume since it has been implemented, with only one respondent showing an increase. The average monthly cost to a jobber as a result of the surcharge was $3,890.00.

III. How Should TOMA Resolve Problems with Refiners?

The membership endorsed President Bill H. Bailey, Jr. and his effort to work with refiners to resolve problems. At the same time, there appeared to be a significant increase in interest in pursuing legislative relief. This is how members ranked various options for resolving problems:

1. Work directly with refiners to inform them of marketer problems.

2. Inform certain refiners boards of directors about their

marketing departments discriminatory policies.

3. Support federal legislation that would allow suppliers or retail outlets to charge the consumer direct for credit card charges.

4. Increase brand committee activities in Texas.

5. Support a congressional investigation of marketing problems.

6. Support divorcement/divestiture legislation.

7. Support federal legislation to prohibit credit card surcharges.

8. Support state legislation to prohibit credit card surcharges.

9. These are individual problems that each marketer must work out.

10. TOMA should limit its involvement to informing members of refiner actions.

August 1982

Senator DIXON. Let us pursue this further. There is an implied suggestion here, maybe even an expressed one by some of you, that there is some kind of a conspiracy taking place to move the jobber out of this business to some extent, or at least substantially limit the jobber's place in the business, maybe by some kind of a complicated pricing system that actually brings to the dealer in some cases the supply at a cheaper price than the jobber is obtaining it at. Is this what you are suggesting to this committee?

Mr. DEUTSCH. Very much so.

Senator DIXON. We will get into that later when others are heard, but is it the impression that you want to leave with me that in some cases actually the product is getting to the retailer at a lower price than is profitable for the major?

I think in somebody's testimony there was something showing that one of the majors actually had a loss in that area, and the inference would have been from that that the loss was due to supplying the product at less than the cost of the production of it. Is that a fair assessment?

Mr. POTVIN. It is, Mr. Chairman. There is no question that dealers frequently buy cheaper and on occasion much cheaper than jobbers.

I would like to submit at this time to illustrate the point you have made an excerpt from the Texaco 5-year marketing plan, which reveals that the categories that they are pushing volume on at the expense of jobber volume cost them, by their own numbers, three to six times more per gallon than jobber volume. You have to ask whether they are even being fair to their own shareholders.

Senator DIXON. I want to pursue this. Without objection, that plan will be included in the record at this point.

[Material referred to follows:]

MARKETING DEPARTMENT-U.S.
LONG RANGE PLAN
5 YEAR 1977 - 1981

EXPENSE REDUCTION OBJECTIVES

The Marketing Department-U.S. must have an expense reduction overall which, when including increased costs and inflation, will not allow expenses to exceed $856 million in 1981.

Salaries, wages and benefits must be controlled so as not to exceed $222 million as part of the above figure.

The expense reduction objective of motor gasoline sales is to reduce the marketing expense by the minimum $.015 per gallon.

Basis 1975 statistics objective expense reduction by major classes of trade are estimated as follows:

CLASS OF TRADE	PRESENT $ EXP./GAL.	REDUCTION $/GAL.	VOLUME (000 GALS)	REDUCTION AMT. $000
Investment Stations	$.0763	$ .03	2,680,000	$80,400
Other Retailers	.0516	.015	1,900,000	28,500
Distributors	.0123	.005	2,816,000	14,080
Consumer Sales	.0318	.005	899,000	4,495
Total	$.0440	$ .015	8,295,000	$127,475

The annual increments of expense reduction necessary to achieve this long range objective, will be established in the Annual Marketing Plan each year taking into account the then apparent cost and inflation trends.

The changes in the long range Distribution Objectives are planned to contribute to the reduction in marketing expense and, at the same time, keep Texaco competitive in the marketplace.

Mr. DEUTSCH. One thing, Senator: We have even heard of instances in the last couple of months where actually the dealer is selling to jobbers because the dealer has got a better price than the jobber. That just does not seem right, but that is actually happening out in the hinterlands of Illinois.

Senator DIXON. Let me pursue this. I want to be the devil's advocate here in respect to some point that was made several times about these credit cards.

We have hearings in the Congress all the time about the credit card question. There cannot be any question at all about the fact that it is better from the seller's standpoint if he can have the cash rather than the credit card.

I wonder how you respond to that. There seems to be an argument against some kind of a cash discount allowance. I take it your argument is that you ought not to have to carry the weight of that; that is your argument. You are not suggesting that the majors ought not to be concerned about the credit card situation, are you? Obviously credit cards in the country cost those people who are the supplier a considerable sum of money. You do not quarrel with that?

Mr. DEUTSCH. No.

Senator DIXON. What you are suggesting to this committee is that you as the jobber are carrying an unreasonable percentage. I thought that was your testimony, Mr. Deutsche.

Mr. DEUTSCH. That is exactly what we are saying.

Senator DIXON. But again, in essence, if I understand it, if you had a decent relationship that worked, and you made a reasonable profit while being fair to the consumer, and the dealer made a reasonable profit while being fair to the consumer, and the allowance for the credit card was reasonable to the consumer but up and down the line with the major, and the jobber, and the dealer; you do not have any quarrel with any of those concepts?

Mr. DEUTSCH. When they started this idea of credit card cutback, or whatever you want to call it, I think the smart thing would have been for them to take and bring in their jobber council. All the majors have jobber councils. And they should have discussed this problem and tried to work it out mutually. Instead, they issued the edict and then told everybody to follow it. This caused a problem.

When you give a jobber 0.8 of a cent to pay off his deal on the credit card when you are offering 4 cents off, and the dealer got 2.8, neither one of them is coming out very well. If the dealers and jobbers had been brought in on such a discussion—which they were not—I think we could have straightened this thing out in the first place, but it has gotten out of hand and more of it is happening.

Senator DIXON. Let me make this a part of the record also. I get the sense there is no supply problem right now; there is adequate product out there, is there not?

Mr. CLAUSS. I disagree, Senator. I think we have a definite supply problem on No. 2 oil, distillates, and heating oil. Otherwise, there certainly would not have been a 6-cent increase in the last 30 days.

Senator DIXON. I see.

Mr. CLAUSS. The figures indicate that we are about 50 billion barrels under a year ago as we go into the peak of the heating season.

We are in definite trouble unless they straighten it out. They have the capability to straighten it out.

It would almost be my personal suggestion that the Government get involved in this sense, that on some of the mothballed refineries, that they take them over and start using some of the stuff that we are sticking into the ground and bringing it up to where it should be.

Oftentimes the major oil companies are much too late recognizing what is going on. Their figures are too slow coming to them.

Senator DIXON. Counsel?

Mr. POTVIN. The one exception on gasoline, Mr. Chairman, is Arco. Their marketing vice president has publicly stated that he wishes they were all retail. There are a lot of jobbers in this State who cannot get nearly the amount of gasoline that they need from their supplier, Arco. There are a lot who have been cut off. They ran their price so high that they could not sell it and then terminated them for not meeting their contract minimums. That is very unfair.

Senator DIXON. I guess the very obvious question at a point like this, with a panel of jobbers, is this: If a divorcement law were passed and it prohibited jobbers from retailing, which is an obvious, arguable point for the majors, how would you feel about that?

Mr. DEUTSCH. That is one of the reasons we never supported divorcement.

Senator DIXON. I suspected as much.

Gentlemen, I appreciate your testimony. I hope you feel that you have had an adequate hearing. I apologize for the time constraints, but I am just on a very limited schedule and had to work this in to the extent that I could accommodate everyone.

Do you feel that you have been adequately heard and that your statements have been correctly reproduced in the record, and that your point of view has been substantially heard here by the committee? You understand that you, and the retailers, and the majors who testify here will all be fully heard today and that a copy of this record will be distributed to every member of this committee.

Mr. DEUTSCH. Senator, we thank you very much. You know that this being an election year and everything, the quickness of your reaction when we got hold of you on September 1, less than 30 days, and something was done—we appreciate very much the actions you have taken. We will keep you informed as things progress.

Mr. POTVIN. Senator, your courageous action in scheduling and holding this is going to be written large in the annals of our industry. What you, sir, have heard here today are the first muffled drumbeats of the formation of an army which will march if the refiners do not start treating small business marketers with a modicum of decency, which they distinctly are not doing today, sir. [Applause.]

Senator DIXON. Thank you all for coming.

Without objection, the texts of your full statements will be included in the record at this point.

[Material referred to follows:]

TESTIMONY OF WILLIAM R. DEUTSCH

OCTOBER 12, 1982

CHICAGO, ILLINOIS

MY NAME IS WILLIAM R. DEUTSCH AND I AM THE EXECUTIVE VICE PRESIDENT OF ILLINOIS PETROLEUM MARKETERS ASSOCIATION LOCATED AT 112 WEST COOK STREET, SPRINGFIELD, ILLINOIS 62704. I REPRESENT OVER 700 JOBBERS FROM EVERY COUNTY IN THE STATE OF ILLINOIS BOTH BRANDED AND UNBRANDED. OUR MEMBERSHIP CONSISTS OF JOBBERS WHO HANDLE ANYWHERE BETWEEN 400,000 GALLONS PER YEAR TO OVER 50,000,000 GALLONS PER YEAR.

SENATOR DIXON, MEMBERS AND STAFF OF THE SELECT COMMITTEE ON SMALL BUSINESS OF THE UNITED STATES SENATE, WE APPRECIATE THE TIME YOU HAVE TAKEN TODAY TO HOLD THIS HEARING CONCERNING A VERY SERIOUS PROBLEM THAT HAS OCCURRED FOR THOSE WHO MARKET PETROLEUM PRODUCTS.

RECENTLY, WE HAVE WATCHED SOME VERY DESTRUCTIVE CHANGES TAKE PLACE BETWEEN THE MAJOR SUPPLIER AND THE JOBBER WHOM I REPRESENT. HISTORICALLY, JOBBERS HAVE ENJOYED A UNIQUE RELATIONSHIP WITH THEIR SUPPLIER. WHILE THERE HAS BEEN SOME IN-HOUSE BICKERING, THEY HAVE ENJOYED A RELATIONSHIP THAT HAS BEEN BOTH MUTUAL AND BENEFICIAL. PETROLEUM MARKETERS OR JOBBERS HAVE BEEN ABLE TO MOVE THE PRODUCT THAT THE REFINER HAS SUPPLIED VERY EFFICIENTLY.

DOWN THROUGH THE YEARS, SINCE THE 1920's, THIS PARTNERSHIP HAS BEEN BENEFICIAL IN MANY WAYS TO BOTH THE SUPPLIER AND JOBBER.

JOBBERS FREQUENTLY HAVE BEEN ON THE SAME SIDE AS MAJOR OIL COMPANY WITH MANY PROBLEMS. JOBBERS WERE INSTRUMENTAL IN BRINGING AN END TO FEDERAL CONTROLS AND REGULATIONS, THEY HAVE CONSISTENTLY FOUGHT AGAINST DIVORCEMENT AND THEY WERE QUICK TO COME TO THE RESCUE THIS PAST SPRING WHEN A NEW IMPORT TAX WAS PROPOSED. THE MAJOR OIL COMPANIES HAVE FREQUENTLY BENEFITED FROM THE SUPPORT OF THE JOBBER LOBBYING EFFORTS.

UNFORTUNATELY, LAST FALL, A NEW DESTRUCTIVE FORCE BEGAN TO EMERGE. A MAJOR OIL COMPANY ANNOUNCED THAT IT WOULD BEGIN CHARGING 3% ON ALL MAJOR CREDIT CARDS AND THAT ALL JOBBERS AND DEALERS WOULD BE FORCED TO PAY THIS 3%. CONSEQUENTLY, LATER ANOTHER MAJOR OIL COMPANY ANNOUNCED THEY WERE CANCELLING MOST JOBBER CONTRACTS AND THAT THEY WOULD NO LONGER HONOR CREDIT CARDS AND WOULD GO ON A CASH BASIS AND PRICE ACCORDINGLY. IN JULY, ANOTHER BIG MAJOR OIL COMPANY IN THE MIDWEST ANNOUNCED THEY WOULD OFFER A CASH DISCOUNT OF 4¢ PER GALLON. THEY WERE SOON FOLLOWED BY ANOTHER LARGE COMPANY THAT INSTITUTED THIS SAME PROGRAM ON AUGUST 15th. AS RECENTLY AS SEPTEMBER 15, ANOTHER MAJOR OIL COMPANY SAID THEY WOULD ACCEPT ALL CREDIT CARD AT ONE PRICE AND INTENDED TO THEN MEET THE CASH PRICE ON THE STREET. THIS ACTION HAS FORCED ANOTHER MAJOR TO ADOPT A SIMILAR PROGRAM.

IN EACH INSTANCE THAT I HAVE MENTIONED ABOVE, THE JOBBER WAS FORCED TO SUBSIDIZE A LARGE PORTION OF THE DISCOUNT INVOLVED. FOR EXAMPLE, ONE MAJOR COMPANY GAVE A JOBBER .008¢ WHILE THE DEALER RECEIVED 2.8¢. JOBBERS FOUND OUT THAT THE DEALER WAS GETTING THEIR GASOLINE CHEAPER BY PARTICIPATING IN THE PROGRAMS THAN THE JOBBER.

IN ORDER TO UNDERSTAND WHAT HAS CAUSED THIS ACTION BY THE MAJOR OIL COMPANIES, LET'S GO BACK A FEW YEARS.

IN 1975, AFTER THE FIRST PETROLEUM SHORTAGE WAS OVER, SEVERAL MAJOR OIL COMPANIES DECIDED THAT THEY WOULD ELIMINATE THEIR COMMISSIONED AGENTS AND MAKE THEM JOBBERS. THEY SOLD THEM THEIR COMPANY OWNED BULK PLANTS AND TANK WAGONS AND ALLOWED THEM TO ACQUIRE COMPANY OWNED SERVICE STATIONS IN CERTAIN AREAS. THIS WAS DONE PRIMARILY BECAUSE THE MAJOR OIL COMPANIES HAD DECIDED TO GET OUT OF THE BUSINESS OF THE RETAIL MARKETING OF PETROLEUM PRODUCTS. THEY KNEW THAT THE MARKETER HAD BEEN MORE PROFICIENT OVER THE YEARS AND HAD BEEN ABLE TO MOVE PRODUCT MUCH MORE EFFICIENTLY THAN THE COMPANY OPERATED UNITS. IT WAS ALSO A KNOWN FACT THAT THE MAJOR OIL COMPANY HAD BEEN FACED WITH UPDATING THEIR FACILITIES BY THE ENVIRONMENTAL PROTECTION AGENCY REGARDING NEW STRICT REGULATIONS FOR VAPOR RECOVERY AT THEIR BULK PLANTS AND SERVICE STATIONS. THE MAJORS DISCOVERED THAT SOME OF THEIR TRANSPORTATION EQUIPMENT WAS NOT IN COMPLIANCE WITH THE NEW HAZARDOUS HAULING REGULATIONS IMPOSED BY THE DEPARTMENT OF TRANSPORTATION AND WAS ALMOST OBSOLETE. MANY OF THEIR TANK

WAGONS WOULD HAVE TO BE UPDATED OR REPLACED WHICH WOULD COST THEM SEVERAL THOUSANDS OF DOLLARS A PIECE. PLEASE REMEMBER THAT THESE COMMISSIONED AGENTS WERE FORCED TO BUY THIS EQUIPMENT AND PROPERTY. HOWEVER, NO ALLOWANCE WAS MADE FOR UPGRADING THE EQUIPMENT OR PROPERTY TO COMPLY WITH EPA AND DOT REGULATIONS.

IN 1978, WHEN THE SECOND SHORTAGE HIT THE MIDWEST, THE MAJOR OIL COMPANIES WORKED WITH THE JOBBER AND ALLOWED THEM TO CONTINUE TO GROW. AT THIS TIME, I WOULD LIKE TO POINT OUT SOME IMPORTANT STATISTICS THAT WERE PUBLISHED FROM THE ILLINOIS DEPARTMENT OF REVENUE.

SINCE 1967, THE JOBBERS' PORTION OF THE MARKET HAD GROWN CONSIDERABLY. AT THAT TIME, THE JOBBER HAD 42.16% OF THE MARKET. IN 1973, THEY HAD 45.59% OF THE MARKET. in 1975, THEY HAD 52.89% OF THE MARKET. IN 1978, THEY HAD JUMPED TO 56.81% OF THE MARKET AND IN 1980, THEY HAD 58.86% OF THE MARKET.

YOU CAN SEE THAT THE JOBBERS IN ILLINOIS AND NATIONWIDE NOW HANDLE OVER 50% OF THE RETAIL MARKETING SALES OF GASOLINE AND OTHER PETROLEUM RELATED PRODUCTS. FOR EXAMPLE, JOBBERS SERVE 85% OF THE AGRICULTURAL NEEDS OF THE COUNTRY.

BEFORE WE WERE HIT WITH THE 1981 RECESSION, THE MAJOR OIL COMPANIES WERE VERY LARGE AND PROFITABLE IN THE PETROLEUM CHEMICAL BUSINESSES. UNFORTUNATELY, WITH THE RECESSION, PETRO-CHEMICAL DROPPED OFF TREMENDOUSLY AND THE BIG OIL

EXECUTIVES DECIDED THAT THEY MUST GET BACK INTO THE RETAILING OF MOTOR FUELS. THE PRICE OF A CRUDE BARREL ALSO WENT DOWN CONSIDERABLY. THEREFORE, BIG OIL MADE THE DECISION TO GET BACK INTO MARKETING AND BY-PASS THE JOBBER. BECAUSE IT IS IMPORTANT TO THIS HEARING, PLEASE REMEMBER THAT ACCORDING TO PETROLEUM INTELLIGENCE WEEKLY, SEPTEMBER 6, 1982, PROFITS ON A BARREL OF CRUDE IN 1979 WERE $2.71 (imported) and $2.09 (domestic). IN 1981, THE PROFIT ON A BARREL OF CRUDE WAS $3.97 (imported) and $4.28 (domestic). THEREFORE, YOU CAN SEE HOW ADVANTAGEOUS IT WAS FOR A MAJOR OIL COMPANY TO MOVE AS MUCH CRUDE AS POSSIBLE AND REFINE IT. MUST THE SMALL BUSINESS ABSORB THE DECLINE OR IS IT TO BE SPLIT EQUITABLY BETWEEN BIG BUSINESS AND SMALL BUSINESS? THIS SAME PUBLICATION STATED "THE REASON IS A DRAMATIC TURN ABOUT THAT HAS MADE U. S. UPSTREAM OPERATIONS CLEARLY MORE PROFITABLE THAN THOSE ABROAD FOR THE FIRST TIME IN A LONG WHILE. PROFITS HAVE CAUGHT UP WITH AND FORGED AHEAD OF THOSE FROM OTHER COUNTRIES." THIS INFORMATION WAS COMPILED FROM PUBLISHED DATA OF SIX MAJOR U.S. BASED COMPANIES: EXXON, MOBIL, SOCAL, TEXACO, US SHELL AND GULF OIL.

WHAT JOBBERS REALLY WANT IS A FAIR SUPPLY CONTRACT AT A REASONABLE PRICE WITH SOME ASSURANCE OF SUPPLY, NO DOWNSTREAM SUBSIDIZATION, NO PREDATORY PRICING. I HAVE TO ASK MYSELF IF THE MAJORS WILL WORK TOWARDS ELIMINATING THESE PROBLEMS SO THAT WE CAN ALL WORK FOR THE GOOD OF THE CONSUMER RATHER THAN HAVING AN UNWARRANTED AND UNNECESSARY FIGHT FOR A GOAL WE DO NOT WANT. . . NAMELY SOME RADICAL LEGISLATIVE PROPOSAL IN CONGRESS.

SENATOR DIXON AND MEMBERS OF THE SELECT COMMITTEE ON SMALL BUSINESS, I HOPE I HAVE BEEN OF SOME HELP IN GIVING YOU A GOOD IDEA OF THE BACKGROUND OF THIS PROBLEM WE ARE DISCUSSING TODAY. I WOULD BE MORE THAN HAPPY TO ANSWER ANY QUESTIONS YOU MAY HAVE.

THANK YOU.

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TESTIMONY OF DEANE STEWART

OCTOBER 12, 1982

CHICAGO, ILLINOIS

MY NAME IS DEANE STEWART AND I AM PRESIDENT OF STEWART OIL COMPANY IN URBANA, ILLINOIS. WE ARE AN INDEPENDENT MARKETER OF PETROLEUM PRODUCTS WITHIN THE STATE.

RECENTLY A JURY IN NORTH CAROLINA DETERMINED THAT COLLUSION EXISTED IN PRICING AND SUPPLY WHEN IT WAS FOUND THAT MANY OIL COMPANIES MAINTAINED EXACT OR SIMILAR PROCEDURES EVEN THOUGH CONTACT BETWEEN THE OIL COMPANIES WERE NEVER PROVEN. SIMILAR SITUATIONS EXIST IN THE ILLINOIS MARKETPLACE.

IT WOULD APPEAR THAT THERE EXISTS A CONCERTED EFFORT ON THE PART OF THE LARGEST MAJOR OIL COMPANIES TO REDUCE THE MARKET SHARE PRESENTLY HELD BY INDEPENDENT MARKETERS. SOME HAVE PUBLICLY STATED THEIR INTENTIONS TO INCREASE THEIR SHARE OF THE MARKET THROUGH VERY COMPETITIVE PROGRAMS. MANY INDUSTRY OBSERVERS BELIEVE THERE IS A MOVEMENT BY MANY SUPPLIERS TO RID THEMSELVES OF THEIR JOBBER CUSTOMERS. AGAIN THE METHODS EMPLOYED ARE SIMILAR.

SPECIFICALLY THOSE ACTIONS INCLUDE:

DISCRIMINATION IN PRICING PROCEDURES: ARCO, FOR INSTANCE, HAS DEVELOPED A PROGRAM TO ALLOW THEIR STATIONS TO PRICE CONTINUOUSLY BELOW ANY COMPETITOR ON THE STREET. IT IS REPORTED THAT SOME DEALERS IN THE CHICAGO MARKET ARE RECEIVING AS MUCH AS 6.8 CENTS PER GALLON ALLOWANCE. SUCH ALLOWANCES PLACES ARCO'S APPARENT WHOLESALE PRICE FIVE OR SIX CENTS BELOW THE MARKET.

THE ALLOWANCE PROGRAM IS NOT LIMITED TO CHICAGO, BUT IS IN FACT WIDE SPREAD. THE ISSUANCE OF TEMPORARY COMPETITIVE ALLOWANCES FOR THE REFINER SUPPLIED DEALERS IGNORES EQUITABLE ALLOWANCE TO THE INDEPENDENT MARKETERS.

REFUSAL OF SUPPLY CONTRACTS: THE FEDERAL TRADE COMMISSION REPORTS THAT THE EIGHT LARGEST MAJOR OIL COMPANIES HAVE CONSISTENTLY REFUSED TO SUPPLY GASOLINE TO INDEPENDENT MARKETERS. THEY DOCUMENT A REPORT FROM ONE COMPANY SAYING, "ANY AND ALL REQUESTS FOR UNBRANDED GASOLINE SUPPLY TO BE FLATLY REFUSED WITH NO COMPROMISE". CONTINUED EFFORTS TO ACHIEVE CONTRACT SUPPLY HAS BEEN FRUITLESS. INDEPENDENT MARKETERS WITHOUT SECURE SUPPLY MUST SEEK ALTERNATIVE SOURCES WHICH CONTINUES TO DISAPPEAR EACH DAY WITH BUYOUTS SUCH AS US STEEL/MARATHON, DUPONT/CONOCO AND OCCIDENTAL/CITIES SERVICE. THE AVAILABLE SUPPLY SOURCES ARE REDUCED TO UNDEPENDABLE BROKERS WHO PROSPER DURING SUPPLY GLUTS AND DISAPPEAR AT THE HINT OF A SHORTAGE.

ELIMINATION OF FREIGHT ALLOWANCES: HAULING ALLOWANCES HAVE BEEN PARED OR ELIMINATED RESULTING IN LONGER HAULS. SINCE A SUPPLIER WILL HAVE PRODUCT AT A SPECIFIC TERMINAL THE BUYER MUST ABSORB THE FREIGHT WHICH CAN BE DETRIMENTAL TO HIS PRICING PROGRAM. PRIOR TO DECONTROL, THE MAJORITY OF GASOLINE WAS PRICED ON A DELIVERED BASIS WHICH MAINTAINED A UNIFORM COMPETITIVE PRICE. RACK PRICING NOW DISCRIMINATES AGAINST THE RURAL OR FARM MARKETER SINCE MOST TERMINALS ARE LOCATED IN METROPOLITAN AREAS. INTERESTINGLY ENOUGH, THE MAJOR SUPPLIERS HAVE SOLD ALL RURAL BULK PLANTS AND FARM BUSINESS TO THEIR FORMER DISTRIBUTORS AND HAVE INSTEAD CONCENTRATED ON THE METROPOLITAN MARKETS.

CHANGES IN CREDIT TERMS: THE 1% CASH DISCOUNT HAS GONE THE WAY OF THE EDSEL AUTOMOBILE. TODAY MOST INVOICES ARE NET OR DUE UPON RECEIPT. THERE IS APPREHENSION THAT MOVES BY SUPPLIERS TO SHORTEN TIME ALLOWED FOR PAYMENT

OF INVOICES WILL EVENTUALLY LEAD TO CASH ON DELIVERY AT WHOLESALE RACKS. SOME NOW REQUIRE LETTERS OF CREDIT OR DRAFT THE CUSTOMERS ACCOUNT. THE RESULT IS A REDUCED CASH FLOW TO THE MARKETER.

CREDIT CARD FEES: VIRTUALLY EVERY MAJOR OIL COMPANY HAS ASSESSED A CREDIT CARD FEE FOR THE USE OF THEIR CARD. THE CARD HAS PREVIOUSLY BEEN CONSIDERED A BASIC MARKETING TOOL BUT THE COST IS NOW PASSED TO THE MARKETER. THE MAJOR SUPPLIERS HAVE INSTITUTED A PROGRAM OF "DISCOUNT FOR CASH", WHICH IS IN REALITY AN EFFORT TO DISGUISE CREDIT CARD SURCHARGES. THE USE OF THE DISCOUNT PROGRAM MARKET WIDE WILL EVENTUALLY RIP WEAK MARKETS TO SHREDS, RESULTING IN LITTLE IF ANY MARGIN TO THE INDEPENDENT MARKETER.

IT IS A KNOWN FACT THAT THERE IS A WORLDWIDE CRUDE OIL SURPLUS. TODAY REFINERY UTILIZATION IS LESS THAN 68%, WELL BELOW THE 92% ACHIEVED THREE YEARS AGO. ONE WOULD CONCLUDE A SIMPLE SOLUTION WOULD BE TO OFFER PRODUCT TO THOSE REQUESTING ADDITIONAL SUPPLY. INSTEAD THE MAJOR SUPPLIERS HAVE CHOSEN TO OFFER RETAIL DISCOUNTS TO SELL BELOW COMPETITION. THEY HAVE LIMITED THE SUPPLY TO THEIR JOBBERS YET PROVIDED UNLIMITED AMOUNTS TO RETAILERS WHO WILL PRICE AT SUB MARKET PRICE LEVELS.

THE FEDERAL GOVERNMENT IS A PARTICIPANT, AS THEY HAVE PROVIDED FAVORED TAX LEGISLATION SUCH AS PROVISIONS FOR PRICING AND TRANSPORTATION OF NORTH SLOPE OIL, THE WIND FALL PROFITS TAX EXEMPTION, FOREIGN TAX TREATMENT, AND MANY OTHERS. THESE BENEFITS HAVE FLOWED DIRECTLY TO THE MAJOR SUPPLIER PERMITTING THEM TO PURSUE ANTI-COMPETITIVE PRACTICES. IT IS INTERESTING TO NOTE THAT ARCO, AS A RECIPIENT OF THE NORTH SLOPE TAX BENEFIT, POSTED A PROFIT GAIN FOR THE FIRST HALF OF 1982. HISTORICALLY, THE MAJOR REFINERS HAVE A POOR TRACK RECORD OF PROFIT PERFORMANCE AT THE RETAIL LEVEL. THEREFORE, WITHOUT FAVORED LEGISLATION THEY COULD NOT COMPETE AT THE RETAIL

LEVEL PROFITABLY. THE INDEPENDENT MARKETER NEEDS A FAIR SHAKE. HE DOES NOT AND SHOULD NOT HAVE AN UMBRELLA OF PROTECTION, BUT NEITHER SHOULD HIS COMPETITION, THE LARGER MAJOR SUPPLIERS.

THERE ARE, HOWEVER, SOLUTIONS TO THE PROBLEMS, WHICH ARE AS FOLLOWS:

1) INCREASED EFFORTS BY THE U.S. DEPARTMENT OF JUSTICE AND THE FEDERAL TRADE COMMISSION TO ENFORCE ALLEGED REFINER VIOLATIONS OF EXISTING ANTI-TRUST LAWS.

2) CONGRESS INITIATE INVESTIGATIVE HEARINGS INTO CURRENT MARKETING PROBLEMS AND INTO FEDERAL ENFORCEMENT POLICIES CONCERNING ALLEGED VIOLATIONS.

3) DEVELOP A SPECIFICALLY DESIGNED FEDERAL DIVORCEMENT/DIVESTITURE LEGISLATION TAILORED TO ADDRESS OVERALL PROBLEMS OF THE GASOLINE MARKETPLACE.

4) CHOICE OF EITHER DIVESTITURE OF ALL CRUDE OIL HOLDINGS OR RETAIL MARKETING OPERATIONS.

5) DEVELOP A FULL SLATE OF STATE LEGISLATIVE AND OTHER REMEDIES TO ADDRESS PREDATORY SUPPLIER ACTIVITIES IN EACH STATE.

6) A FULL DISCLOSURE FINANCIAL REPORTING LEGISLATION REQUIRING PUBLICATION OF TRANSFER PRICES FOR EACH MAJOR SUPPLIER AT CRUDE, TRANSPORTATION, AND MARKETING LEVELS ACCOMPANIED WITH AN ANTI-TRUST AMENDMENT THAT PUTS MEANING INTO THE LAWS.

FOR THE PRESENT, MR. CHAIRMAN, I REQUEST THAT YOU INITIATE INVESTIGATIVE HEARINGS THROUGH THE SENATE SMALL BUSINESS COMMITTEE AND CONSIDER THE OTHER SOLUTIONS AT THAT TIME.

INDEPENDENT MARKETERS ARE CAUGHT IN THE MIDDLE OF A FIGHT FOR MARKET CONTROL BY THE MAJOR REFINERS WHO ARE USING VERY SIMILAR TACTICS TO ACHIEVE THEIR PURPOSE. THE NET EFFECT IS TO PUT THE COMPANY OWNED STATIONS AGAINST THE INDEPENDENT MARKETER AT UNEVEN ODDS. THE MAJOR SUPPLIERS ARE SO LARGE AND POWERFUL THAT THEY CAN ELIMINATE THE INDEPENDENT SMALL BUSINESSMAN MARKETER WITHOUT FEELING ANY PAIN OR REMORSE. WE WANT FAIRNESS NOT RUTHLESSNESS.

THANK YOU.

GOOD MORNING / AFTERNOON SENATOR DIXON AND MEMBERS OF "SELECT COMMITTEE ON SMALL BUSINESS", FELLOW OIL MEN AND THE MEDIA. I AM HAPPY TO BE HERE TO INFORM YOU OF THE POSSIBLE DISASTER WITHIN OUR INDUSTRY CREATED BY THE INTEGRATED OIL CO. (MAJORS)

MY NAME IS JOE WARE. I AM AN OFFICER AND A MAJOR STOCKHOLDER IN WARELUBCO, INC. OF JACKSONVILLE, ILLINOIS. A FAMILY BUSINESS STARTED IN 1931. ALTHOUGH WE PURCHASE OUR PRODUCT FROM MAJOR OIL COMPANIES, OUR COMPANY IS INDEPENDENT AND NOT OWNED IN ANY PART BY INTEGRATED COMPANY.

ADDRESSING THE PROBLEM:

1. CONSUMPTION OF FUEL IS DECREASING EVERY MONTH. PROFITS WILL HAVE TO BE MADE ON LESS SALES.

2. MAJOR OIL COMPANIES HAVE CURTAILED PRODUCTION AND CLOSED SOME REFINERIES, RESULTING IN LESS FUEL ON THE MARKET AND IN CERTAIN INSTANCES, PRODUCT THAT WAS AVAILABLE TO THE UNBRANDED SEGMENT IS NOT NOW AVAILABLE.
   A. THIS ALLOWS THE MAJORS TO CONTROL NOT ONLY THE WHOLESALE PRICE BUT ALSO THE RETAIL OR STREET PRICE.
   B. SOME MAJOR PRICING SUGGESTS PREDATORY PRICING: DIRECT SUBSIDIZATION OF COMPANY OPERATED OR DEALER OPERATOR STATIONS RECEIVING A COMPENSATION FOR SELLING AT A "BELOW" COST LEVEL.

3. SOME MAJORS SUBSIDIZE THEIR MARKETING UNITS WITH PROFITS FROM OTHER ASPECTS SUCH AS: CRUDE OIL, REFINING AND TRANSPORTATION.

4. IT SEEMS TO US THAT THE INTEGRATED OIL COMPANIES HAVE SET COURSE TO ELIMINATE, FROM THE STREET, THAT COMPETITION THAT HAS KEPT THE MAJORS FROM COMPLETE DOMINATION OF THE MARKET PLACE. THIS WILL CREATE A TREMENDOUS EXPENSE TO THE PUBLIC.

5. THERE ARE SOME MAJOR OIL COMPANIES WITHDRAWING FROM GEOGRAPHICAL AREAS OF OUR COUNTRY BECAUSE THE NET BACK IS GREATER IN ANOTHER AREA. IN DOING THIS IT SEEMS THAT THE MAJORS ARE DIVIDING UP THE U.S. INTO "YOURS AND MINE" SEGMENTS.

WE KNOW THAT THE INTREGATED OIL COMPANIES CONTROL THE PRODUCT FROM "BELOW GROUND" UNTIL THE CUSTOMER BURNS THE FUEL IN HIS CAR OR TRUCK. THEY CONTROL THE PRODUCT AVAILABILITY AS WELL AS THE PRICE OF THAT PRODUCT IN ALL ASPECTS. IF ALLOWED TO CONTINUE IT WILL SURELY ELIMINATE THOSE WHO DO NOT HAVE THAT AVAILABILITY OF CRUDE, REFINERING, AND TRANSPORTATION. I CAN NOT VISUALIZE OUR COUNTRY WITHOUT COMPETITION.

OUR BUSINESS HAS BEEN SUCCESSFUL FOR MANY YEARS. IT MADE IT THROUGH THE DEPRESSION, THE WAR, SHORTAGE OF PRODUCT EMBARGO, ETC. NOW WE ARE FACED WITH A DANGER OF OUR ELIMINATION AND THERE IS NO WAY TO FIGHT: FOR INSTANCE, IN DECATUR, ILLINOIS, OUR COST IS 1.163 - SHELL OIL CO. IS SELLING AT 1.139 DIRECT DEALER. THERE IS

ABSOLUTELY NO WAY FOR US TO BE COMPETITIVE IN THE MARKET PLACE WHERE WE ARE FORCED TO SELL BELOW COST.

SINCE THE 1930'S, WHEN THE MAJORS MOVED THE PRICE AT WILL, THE INDEPENDENTS BROUGHT A COMPETITIVNESS TO THE PUBLIC.

AT THE PRESENT TIME THE MAJORS ARE "PLAYING" WITH THE PRICE AND TRYING TO CREATE GOOD WILL TO THE CONSUMER. WHEN IN THE LONG TERM THEY WANT COMPLETE DOMINATION. IF YOU REMEMBER DURING THE SHORTAGE THE MAJORS WERE ALWAYS 5¢ OR MORE ABOVE THE INDEPENDENTS. NORMALLY THE REASON WE CAN SELL MORE REASONABLY THAN THE MAJOR IS BECAUSE WE DO NOT HAVE THE OVERHEAD.

ALTHOUGH WE COMPLAIN ABOUT THE MAJORS, THERE ARE SOME MAJORS THAT HAVE BEEN DECENT TO THE INDEPENDENT BRANDS.

IF THE MAJOR RETAIL OUTLETS WERE MADE TO "SINK OR SWIM" AS OURS HAVE TO DO, WITHOUT SUBSIDATION, I FEEL CERTAIN THAT THERE WOULD BE A DIFFERENT PHILOSPHY IN THE MARKET PLACE.

FOR DELIVERY ON 10/12/82
TO: "SELECT COMMITTEE ON SMALL BUSINESS"
AT: CHICAGO, ILLINOIS

GOOD MORNING/AFTERNOON SENATOR DIXON AND MEMBERS OF "SELECT COMMITTEE ON SMALL BUSINESS", FELLOW OIL MEN AND THE MEDIA. I'M HAPPY TO BE HERE TO ATTEMPT TO EXPLAIN THE PLIGHT OF THE INDEPENDENT GASOLINE MARKETERS IN THIS COUNTRY.

MY NAME IS LESTER WRIGHT. I AM THE PRESIDENT AND MAJORITY STOCKHOLDER OF A CLOSELY HELD FAMILY CORPORATION, J. & L. OIL, INC. OF VERNON HILLS, ILLINOIS. THE OTHER STOCKHOLDERS ARE MY CHILDREN. THIS IS MY 50TH YEAR IN SERVICE STATION MARKETING, AND MY 32ND YEAR IN BUSINESS FOR MYSELF. I HAVE NEVER WORKED FOR ANYONE OTHER THAN INDEPENDENT MARKETERS SUCH AS MARTIN OIL AND J. D. STREET & COMPANY. ALL I KNOW IS GASOLINE MARKETING AND I'M BEGINNING TO WONDER IF I KNOW ANYTHING ABOUT THAT.

NOW ADDRESSING OUR PROBLEM. I MAKE THE FOLLOWING CHARGES:

1. SOME OF THE INTEGRATED OIL COMPANIES (MAJORS IN OTHER WORDS) HAVE SUBSIDIZED THEIR MARKETING OPERATIONS FROM PROFITS OF OTHER DEPARTMENTS SUCH AS:
   A. CRUDE OIL
   B. REFINING
   C. TRANSPORTATION
   D. EXTREMELY UNFAIR TAX ADVANTAGES WITH DEPLETION ALLOWANCES
2. THE DEPARTMENT OF ENERGY HAS FAILED TO CARRY OUT ITS MANDATE TO PRESERVE THE STRUCTURE OF COMPETITION IN THE

MARKETING OF GASOLINE AND TO PROTECT THE NON BRANDED MARKETER.

3. SOME MAJORS HAVE AT TIMES SUBSIDIZED THEIR DIRECT COMPANY OPERATIONS.

4. MOST MAJORS HAVE REFUSED TO SELL UNBRANDED GASOLINE ON A CONTRACT BASIS TO UNBRANDED MARKETERS.

5. MOST MAJOR OIL COMPANIES, FROM COAST TO COAST, ARE RESORTING MORE AND MORE TO PREDATORY PRICING.

6. IT APPEARS MAJOR OIL COMPANIES, HAVE BEEN ON A WELL ORCHESTRATED PLAN OF ACTION TO ELIMINATE JOBBERS.

7. THE INTEGRATED COMPANIES ARE ON A CAMPAIGN TO CONVERT THEIR MANY KEY STATIONS TO DIRECT COMPANY OPERATION TO CONTROL THE RETAIL PRICE.

8. THESE SAME LARGE OIL COMPANIES ARE WITHDRAWING FROM THEIR TRADITIONAL MARKETS ON WHAT APPEARS TO BE AN ORGANIZED SCHEME TO "DIVY" UP THE MARKETS IN THIS COUNTRY TO EACH COMPANY'S BEST ADVANTAGE MARKET WISE!

9. MAJOR OIL COMPANIES CONTROL THE TRANSPORTATION OF PETROLEUM PRODUCTS. INTEGRATED OIL COMPANIES HAVE BEEN ABLE TO DENY LARGE INDEPENDENT TRADERS ACCESS TO THE GATHERING LINES WHERE THEY COULD BUY PRODUCTS FROM INDEPENDENT PRODUCERS. BY CONTROLLING THE GATHERING LINES THE MAJOR'S DOMINANCE OVER CRUDE OIL IS GREATER THAN THEIR OWN PRODUCTION. MORE THAN 75% OF THE FINISHED PRODUCT PIPELINE CAPACITY IS OWNED AND CONTROLLED BY THE MAJORS.

10. THERE IS A WELL DESIGNED AND THOUGHT OUT PLAN BY THE MAJORS TO COMPLETELY ELIMINATE INDEPENDENT MARKETERS FROM THE SCENE AND TO INTEGRATE FORWARD INTO DIRECT MARKETING AT A ULTIMATE TREMENDOUS EXPENSE TO THE AMERICAN PUBLIC.

MAKE NO MISTAKE ABOUT IT IF THE MAJORS SUCCEED IN ELIMINATING THE INDEPENDENTS THERE WILL BE LITTLE COMPETITION AT THE PUMP! MY CHARGES ARE SERIOUS AND CONGRESS MUST TAKE STOCK OF WHAT IS HAPPENING!

NOW LET'S ADDRESS MY 10TH POINT. THE PLAN BY THE MAJORS' TO ELIMINATE THE UNBRANDED MARKETERS FROM THE SCENE. THIS IS WHAT I'M CONCERNED ABOUT: "MY POSSIBLE FAILURE IN THIS BUSINESS"! AFTER 50 YEARS I'D LIKE TO LEAVE MY CHILDREN AND LOYAL EMPLOYEES A BETTER LEGACY.

WE AT J. & L. OIL ARE NO SLOUCHES AT RUNNING OUR BUSINESS; WE WORK AT IT AND WE STRIVE TO BEAT THE PUBLISHED OPERATING FIGURES AND PERCENTAGES FOR OUR BUSINESS OPERATIONS AND WE GENERALLY BEAT ALL OF THEM. BUT WE CAN'T BEAT THE PRESENT SYSTEM. WE AND MOST OTHER INDEPENDENT MARKETERS ARE LOSING MONEY AND HAVE FOR THE PAST TWO YEARS!

HOW DO YOU COPE WITH A STATION IN EVANSTON, ILLINOIS SELLING REGULAR AT $1.219 GIVING US A GROSS MARGIN OF .042 PER GALLON BUT OUR COMPETITOR DOWN THE STREET ARCO IS SELLING AT $1.179. IF WE MET THEIR PRICE OUR MARGIN WOULD BE TWO TENTHS OF A CENT. IN ZION, ILLINOIS WE HAVE AN ARCO STATION SELLING FOR $1.13 PER GALLON. OUR <u>WHOLESALE</u> COST IS $1.138. IN AURORA, ILLINOIS, WHERE WE HAVE 3 STATIONS, OUR <u>WHOLESALE</u> COST IS $1.145 ABOUT ONE HALF CENT PER GALLON MORE THAN THE <u>RETAIL</u> PRICE OF MOST MAJOR STATIONS! WE HAVE LOST ONE-THIRD OF OUR GALLONAGE IN THE LAST YEAR. WE ARE ATTEMPTING TO HOLD ON AND SURVIVE!

STANDARD OIL OF INDIANA (AMOCO) IN THEIR ANNUAL FINANCIAL STATEMENT FOR 1980 STATED THEY LOST $338 MILLION DOLLARS IN MARKETING. IF THE OTHER MAJOR OIL COMPANIES WERE AS HONEST

IN THEIR ACCOUNTING STATEMENTS THE LOSSES WOULD BE TREMENDOUS BUT WHEN YOU HAVE SUBSIDIZED "BLACK GOLD" COMING OUT OF THE GROUND YOU CAN AFFORD TREMENDOUS LOSSES IN ONE DEPARTMENT TO GET RID OF THE PRODUCTS!

MANY MAJORS ARE GRANTING SPECIAL ALLOWANCES TO DEALERS TO BEAT COMPETITION AND POST PREDATORY PRICES. ARCO FOR EXAMPLE IS ON A NATION WIDE, ANNOUNCED PLAN, TO SELL ONLY FOR CASH AT 3¢ PER GALLON BELOW COMPETITION AND THEIR OFFICIALS HAVE OPENLY ADMITTED THEY HAVE DOUBLED THEIR BUSINESS WITH THEIR PREDATORY PRICES.

MAJOR OIL COMPANIES INCREASED THEIR DIRECT OUTLETS BY 25% IN THE YEAR OF 1980. IT IS GENERALLY BELIEVED THAT THE GROWTH IN DIRECT OUTLETS IS CONSIDERABLY UNDERSTATED. THE PERCENT OF GASOLINE SOLD THROUGH REFINER DIRECT OPERATED UNITS HAS GROWN FROM 13% IN 1972 TO 26% BY APRIL 1979.

MY STATEMENTS ABOUT MAJORS REFUSING TO SELL UNBRANDED MARKETERS; THE FAILURE OF DOE TO CARRY OUT ITS MANDATE; THE ELIMINATION OF DEALERS AND JOBBERS BY MAJORS; MAJORS CONTROL OF TRANSPORTATION OF PETROLEUM PRODUCTS; MAJORS FAVORING THEIR OWN DIRECT OPERATION, ARE WELL DOCUMENTED AND CAN BE VERIFIED BY ANYONE IF NEEDED AND DO NOT NEED TO BE ADDRESSED HERE TODAY.

MY SUGGESTIONS FOR A SOLUTION TO THE DILEMMA OF THE UNBRANDED MARKETERS AND MAJOR JOBBERS AND DEALERS ARE AS FOLLOWS:

1. CONGRESS MUST PASS A DIVESTITURE LAW OUTLAWING MAJOR OIL COMPANIES FROM BEING INVOLVED IN ANY MANNER IN THE MARKETING OF GASOLINE AND OTHER PRODUCTS THROUGH RETAIL OUTLETS.

2. Such a law must also require all refiners to sell to all purchasers at their loading racks, in tractor trailer load quanities, at the same price and same terms.

3. Major oil companies must also be required to reveal honestly, periodically, the results of their integrated operation by departments; i.e. crude production, transportation, refining and marketing.

In fairness I must give credit to my prime supplier, Marathon Oil Company, as being a good supplier. They treated us fairly during the periods of short supply. Now they either cannot or will not reduce wholesale prices sufficiently to permit us to compete with the majors present battle for market share.

Gentlemen the subject I have attempted to address is somewhat complicated but I have attempted to be as brief as possible but be as detailed as will permit you to understand the problem.

Thank you for allowing me to appear. Please go back and do your best with your colleagues to preserve the independent marketers. We need your help!

I'll be glad to answer any questions you may have to the best of my ability.

Thank you.

L. L. Wright
J. & L. Oil, Inc.
204 Rt. 45
Vernon Hills, Illinois 60061
(312) 362-0560

COPY

Statement of William T. Shearon
at the
Small Business Hearing on
October 12, 1982
Dirksen Building
219 South Dearborn Street
Chicago, Illinois

My name is William Shearon and I am President of Shearon, Inc., in Harvard, Illinois. I am a branded Standard jobber and branded Marathon distributor. I provide to approximately 5000 customers, gasoline, diesel fuels, home heating oil and motor oils. My sales to these customers are 60% agriculture, 15% commercial, 10% home heating and 15% resellers. I service 65% of my accounts from my bulk plants in tankwagon delivery trucks and 35% by large transport trucks.

As a rural branded petroleum marketer, I am concerned about the exsistence of the branded marketer in a marketplace where the majority of major oil companies are trying to eliminate or curtail the branded marketers functions. I would like to briefly outline the reasons for my opinions, using my two suppliers, Standard Oil and Marathon Petroleum as examples.

STANDARD OIL seems to be, in my opinion, trying to curtail or eliminate the traditional jobber function in the marketplace. Since decontrol of the oil industry, this has been done in the following manor: 1) STANDARD has sold products to super jobbers below jobber buying price 2) STANDARD has sold product to end-users below jobber buying price 3) THEIR charge for the credit card program eliminated the traditional jobber margin 4) CHANGE of credit terms to the jobber 5) RESTRICTING the jobber from branding small retail dealer outlets. All of these points have been presented to STANDARD in meetings, but seem to be of small concern in an

uncontrolled environment.

I feel that the best summarization was from a STANDARD OIL executive, that stated there are too many jobbers in the state of Illinois.

In general, I feel that STANDARD only wants a small number of jobbers to supply customers that are not economically feasible for STANDARD direct marketing.

MARATHON PETROLEUM (a small major refiner), has a different prospective of its' marketing function. I say marketing function because MARATHON is unique in the respects that is has a JOBBER class of trade and a DISTRIBUTOR class of trade, both carrying the MARATHON brand name.

Briefly, the difference in these classes of trade are, the JOBBER class provides branded product and the use of the trademark. The DISTRIBUTOR class receives the same as the JOBBER, plus other services such as, accounts receivable, advertising and petroleum equipment. For these extra services, the DISTRIBUTOR pays a higher cost for his purchases than the JOBBER.

As the chairman for the MARATHON BRANDED MARKETERS OF ILLINOIS, I can truly say that since decontrol, MARATHON, to my knowledge, has not changed its traditional branded functions. In the same respect, during this period of decontrol, MARATHON branded products have been in the marketplace.

The MARATHON branded marketers are concerned on three main points: 1) Will MARATHON have to eliminate or curtail the branded marketers functions to stay competitive with other major oil companies? 2) Our

present uncompetitiveness in the marketplace 3) The possibility of MARATHON changing their marketing policies to create a stronger class of trade.

Recently, a group of branded MARATHON marketers met with MARATHON management and we discussed in detail the problems the branded marketers were having and strongly suggested that MARATHON upper management be included with an open discussion with marketers to create an aggressive marketers program. As chairman, I have been assured that upper management is aware of our concerns and are in the process of considering our proposals.

In summary, if the majority of major oil companies are allowed to create undue hardship on the petroleum marketer in an uncontrolled environment, I feel that legislation must be enacted to insure the vital existence of the petroleum marketer function.

Suggested legislation should provide a petroleum marketer with 1) Protection for the marketer function 2) A marketer margin to be recognized 3) Stop major oil companies predatory pricing 4) Provide the basis for the price major oil companies charge to the several classes of trade 5) Strengthen the protection provided by the Petroleum Marketing Practice Act 6) Not allow a major refiner to subsidize from their refiners on production profit.

Thank you for the opportunity to testify at this hearing and I would be pleased to answer any questions you may have.

Respectfully Submitted,

William T. Shearon, President
SHEARON, INC.

Senator DIXON. Ladies and gentlemen, we are now going to have a panel of retail dealers here. I have six names: Mr. James Brawar.

Mr. Brawar, are you here, sir?

Mr. BRAWAR. Yes, sir.

Senator DIXON. Please step up here and make yourself comfortable, Mr. Brawar.

Mr. Rich Obeid, Mr. Rick Lord, Mr. Gene Stewart, and Mr. Stan Rodman—do I have all of the representatives of your panel?

Mr. RODMAN. We have one more, Mr. Vince Lacke—L-a-c-k-e.

Senator DIXON. Vince Lacke; is that right?

Mr. LACKE. That is right, Mr. Chairman.

Senator DIXON. Fine.

My information, Mr. Brawar, is that you are prepared to be our lead witness for the dealers-retailers.

Mr. BRAWAR. That is right, Mr. Chairman.

Senator DIXON. Mr. Brawar, if you would be kind enough to speak right into that mike, it would help everyone who is listening, because it is a little hard to hear.

You are Mr. Jimmy Brawar, administrator, Illinois Service Station Operators Association.

STATEMENT OF JAMES BRAWAR, ADMINISTRATOR, ILLINOIS SERVICE STATION OPERATORS ASSOCIATION, CHICAGO, ILL.

Mr. BRAWAR. That is right, Mr. Chairman.

Senator DIXON. Where do you live, Mr. Brawar?

Mr. BRAWAR. I live in Des Plaines.

Senator DIXON. Thank you, Mr. Brawar. Feel free to proceed.

Mr. BRAWAR. First, I would like to thank the committee here for the opportunity to express our feelings regarding the problems that the service station operators are saddled with and their inability to make a profit on gasoline. They are asked to participate in programs by their supplying companies that are detrimental to their financial future.

For example, dealers are being charged with a surcharge on their customers' credit cards and in many cases are asked to participate in giving cash rebates to cash customers. Dealers are also being saddled with uneconomical rents.

In 1978 the President signed into law the Petroleum Marketers Practice Act, or dealers day in court bill, whereby a dealer could not be terminated without due cause. This law was supposed to protect lessee dealers from any unreasonable demands by their suppliers or being unjustly terminated by the whims of the supplier's representatives, but instead the supplying companies, by circumventing the law, are still controlling the dealers with threats of unreasonable rentals, so that even though a dealer who felt he was entitled to run his business as he saw fit for himself is still being dominated by the companies with the fear of rent increases, making it impossible for him to stay in business.

I made my statement as short as I possibly could.

Senator DIXON. Mr. Brawar, you are beautiful. You get it said, and you get it done.

Would you pass along your statement for the court reporter so she can reproduce it in the record accurately?

I am going to go down this panel, and if you will stay, we will ask some questions of the whole panel, Mr. Brawar.

Mr. Rich Obied, Boulevard Standard, an Amoco station, in Chicago. You, sir, are president of the Illinois Service Station Operators Association; is that correct?

Mr. OBIED. Yes, sir.

Senator DIXON. Thank you, sir.

STATEMENT OF RICH OBIED, PRESIDENT, ILLINOIS SERVICE STATION OPERATORS ASSOCIATION, CHICAGO, ILL.

Mr. OBIED. Senator, my name is Rich Obied. I am president of the Illinois Service Station Operators Association and an Amoco dealer for over 25 years.

In this business, since the late 1960's, there has never been any stop from this company from gimmick games and the giveaways of S&H green stamps, all gutting the profits from the dealer. Then in the early 1970's came the gas shortages. The company went from a cents-per-gallon rent to an escalating, never-ending rent with no consideration of the dealer being on allocation.

For example, a dealer with 50,000 gallons of gasoline on a cents-per-gallon rent, paying 2 cents per gallon for rent, was paying $1,000 in his location. A dealer with an allocation of 40,000, paying 2 cents a gallon, paid only $800.

When the fixed rent of $1,000 average came along, only getting a 70-percent gallon allocation, how could he make any money?

Then the Department of Energy, on the other side, made us the only business under price control.

Amoco then changed its maintenance program, putting more burden on the dealer's overhead. Now, being a dealer after 25 years of hard work, building a credit card business, they want to come along and take 4 percent of my credit card business. Then there is the new game of discount for cash. This is a penalty paying game with my good credit card customers, insulting them. The discount-for-cash program is a disgrace to all Amoco dealers, and the cost of this program is destroying the dealers by cutting his income 50 to 75 percent. The program is chasing our customers to our competitors—the credit card customers, who are all built on our business and the company's too. This program is designed to hide the fact that the Amoco Co. is imposing a credit card fee on the dealer and the credit card customer.

The Department of Energy has in front of us right now money for disbursement that Amoco has overcharged its customers. They have changed the rules in the middle of the game now. It states in the Federal Register that an Amoco customer—we the dealers are their customers—is entitled to $71 million of the overcharges. Now the Department of Energy wants the bureau to break down the number only to $31 million and in five other products, again depriving the dealer and taking the dealer down a golden path.

Senator, tomorrow I celebrate my 26th wedding anniversary—and a very happy man—and I also celebrate my 26th year of being an Amoco dealer—not a happy man.

Thank you.

Senator DIXON. Thank you, Rich.

I take it you do not have a prepared text. I noticed you used some notes.

Mr. OBIED. I wrote it up last night.

Senator DIXON. That is fine.

Would you do a couple of things for me? Give me your address, please.

Mr. OBIED. 6001 West Addison, Chicago, Ill.

Senator DIXON. Would you give us yours, for the record?

Mr. BRAWAR. 5875 Lincoln Avenue, Chicago, 60659.

Senator DIXON. One other question, Rich, even though I am going to wait until I ask the whole panel, but I would like to establish now—how do you get your product?

Mr. OBIED. I am a direct supplier from Amoco.

Senator DIXON. You are directly supplied by the major.

The next witness is Mr. Rick Lord, Five Corners Standards, an Amoco station in Glen Ellyn, Ill.

You, Mr. Lord, appear to be active in the Metropolitan Amoco Dealers Association.

Could I have your address, Rick, before you begin?

Mr. LORD. Yes. Mine is 840 North Main Street, Glen Ellyn, Ill. 60637.

Senator DIXON. Thank you. You may proceed.

STATEMENT OF RICK LORD, METROPOLITAN AMOCO DEALERS ASSOCIATION, GLEN ELLYN, ILL.

Mr. LORD. Thank you, Senator, for allowing us to appear before your committee today.

I represent a newly formed association which consists of Amoco dealers. We currently have 140 members, and we are growing daily. Our association was formed to communicate as a group with Amoco Oil and our legislative bodies on topics concerning our membership.

The future of the Amoco dealers does not look too promising without help either from our supplier, Amoco, or the legislature. We do support H.R. 5362, which was introduced by Representative Annunzio. We hope the following information listed will aid you in understanding our business and our plight.

I have set out the dealer history. The service station and the service stations have changed dramatically in the past 15 years. Stations initially sold gasoline, oil, automotive accessories, and did minor automotive repairs. Investment was small, dealers worked long hours and developed brand loyalty by giving good service and selling quality products.

Automobiles changed, and customers demanded better service through professionally managed stations. Business investment rose from a few thousand dollars to today's level, which can easily exceed $100,000. Dealers have survived Government controls, shortages, market change, and normal increases in the cost of doing business.

Many dealers failed while they were under Government regulations. Now that controls have been lifted, we find ourselves in worse financial condition than at any time in our history. Dealers

looked to their supplier for direction and a continuing partnership in distributing the supplier's products.

Our supplier has passed costs of operation to the dealer that it has historically absorbed. The rental, maintenance, and credit card programs are examples that have increased the cost of operation to dealers thousands of dollars per month.

Many dealers are on the verge of bankruptcy due to these changes in marketing. Large, small, and multilocation dealers express the same concern: What will happen to my business, career, and future if conditions continue?

Now I would like to move on to gasoline margins. We feel that gasoline margins are very complex and hard to understand for anybody who is not involved in the gasoline business. A penny or a tenth of a cent to us can mean a substantial amount of money over the course of 1 month or 1 year.

Senator DIXON. What does the average station around here pump?

Mr. LORD. Right now, I really could not tell you what the average station pumps by brand. We are representing only Amoco stations. I would say that the average Amoco would have to pump in the neighborhood of 60,000 to 75,000 gallons.

Senator DIXON. Per what?

Mr. LORD. Per month.

Gasoline margins are determined by subtracting product cost plus taxes from pump price. I have an example of that—example B in back. It shows today's price, cents per gallon. This is a two-page analysis. If you take out the taxes and the delivered price, this would give the margin.

You also see alongside of that our credit card charge, which we are being charged at 4 percent. If you factor that out, then you have the credit card margin. So I have listed two margins to help you understand how we arrive at our margins.

Pump prices are determined by the marketplace. If your prices are high, you reduce your volume; if your pump price is low, you increase the volume, regardless of what your margin might be. If you can be competitive in the marketplace, it will determine the amount of product you will dispense.

Amoco's wholesale dealer tankwagon price—the DTW—determines the dealer's margin. If a dealer prices by margin alone, his pump price may be so high that he loses a substantial part of his business. Conversely, if he prices by a low margin, he may wind up losing his business.

Senator DIXON. Are you entitled to set the price on your pump after you buy the product from Amoco?

Mr. LORD. Yes. Amoco in no way controls our pump prices. They have recommendations from time to time, which I will get into a little bit later, but we control our pump prices.

We feel, as dealers, that we are in a catch-22 position. The marketplace really determines what our retail price will be, because if we charge too high a price, we lose our market.

Senator DIXON. Sure.

Mr. LORD. Therefore, we feel that what Amoco prices are at a wholesale level really determines what our margin is.

Dealers with gas-only outlets rely on a weighted margin. I have an example of that—example C. That shows basically how you would arrive at an average margin. It shows different total volume units. You would average in the sales. You would have a margin on each individual product, coming up with a total gross profit. You would divide the gross profit by the gallonage to get an average weighted margin or cents-per-gallon average at a facility.

Senator DIXON. Are you suggesting by this example that the margin is 6.5-tenths of 1 cent?

Mr. LORD. Correct, on that particular program that I ran.

This does not include any ancillary income such as auto repairs, carwash, or minimart, to help them turn a profit. Some units dispense gasoline only; they have no other forms of income to help subsidize their facility.

With a full-serve location and carwash locations running losses, quite obviously all dealers have been affected.

Example B shows a month's sales of gasoline. With a credit card ratio, this particular dealer's gasoline gross profit would drop from $5,201.35 per month to $2,289.35 per month. If the dealer also participated in the discount for cash program, he would be left with $1,169.35 out of his margin.

Senator DIXON. Does the dealer have a choice on participating in that?

Mr. LORD. On the 4-percent credit card fee, there is no choice. There is no written agreement with Amoco. The program was instituted without dealer participation.

The discount for cash program, I would like to clarify, was a voluntary program that Amoco instituted. It was coupled with the 4-percent credit card fee, and the discount for cash program as it stands right now does come out of the dealer's pocket. The so-called 2.8 cents per gallon that the dealer receives, or the rebate, as I believe it was called earlier, we dealers feel is nonexistent. We have nothing that shows a dealer tankwagon delivered price with a rebate of 2.8 cents for participating in the program. We have a dealer tankwagon delivered price, and that is it. We feel that the 2.8-cents-per-gallon initial drop in the dealer tankwagon price was a cover to ease the introduction of the 4-percent credit card fee.

We monitor other major dealers, and we find that Amoco has many times been maybe a few cents a gallon under the major competitors, but many times they are not—within a penny—so we do not feel it is relative in our particular margin level.

We also feel that one of the biggest problems we have on margins is direct distributorships. That is where an oil company will operate all the way through the pipeline right to the nozzle. These particular units do not run on margins at the retail level. They have no wholesale cost. Whatever they want to go onto the street with, that is what they do.

Senator DIXON. You are talking about the company-owned station?

Mr. LORD. Company owned all the way through the pipeline. They are not working on a margin. We dealers and jobbers work on margins because we pay a product cost.

If someone wanted to come into my location—and I do have one independent which is operated through a major oil company, and I

also have an Arco across the street, so I have the worst of both worlds. I can tell you right now that I have been there for 6 years, and the grass has not gotten greener. They continually price below my product, and that is at the pump. Many times they are selling gasoline for less than I am paying for it.

Company employees, ironically, continue to view dealers that are break even on gasoline at a zero margin, and I have an example of that, which shows the actual cost of gasoline. I believe it is example D. The dealer tankwagon price plus taxes are break even.

Under Government controls independent marketers took a large share of branded gasoline sales from us. We dealers are not allowed to go under Government controls. Our gallons are fixed. We have no room for expansion. We had one supplier, and we were not allowed to improve our position.

I also have a statement which was introduced—I believe you have a copy of it.

Senator DIXON. I will tell you, Mr. Lord, your statement is an excellent one and very extensive. If you would accommodate me, I will put this whole thing in the record. Let us get to these other folks, and then we will get to the question-and-answer period, and I think we will accommodate everybody better that way.

Mr. LORD. OK.

Senator DIXON. Is there anything else you feel you would like to say?

Mr. LORD. I would just like to touch on the rental program. I would like to point out that we were initially on a fixed rental, which is a minimum rental—it usually ran less than $800 a month—or a gallonage rental; I have an example of that also.

During that period of time, gallonage was readily available; you could increase your volume. Amoco also subsidized us for an improvement in volume.

As controls started tapering off and the company, I believe, tried to recoup profits it thought it should have passed along—costs they should have passed along—the dealers found that in many instances our rentals—in my own particular instance, in 1980, it was increased 52 percent in 1 year. The following year, I was increased over 30 percent. With costs of operation like this, I do not think there are too many of us who can survive when other suppliers are not following the same course of action.

In example F there are many examples of what the different programs are costing. I would like you to take a look at that particular example. You can take any page of example F. I am on page 5.

Senator DIXON. OK. I am on page 5 also.

Mr. LORD. In 1982 the cost of the rental program, maintenance program, and credit card fee was costing $5,041 on 60,000 gallons of gasoline. That is without any other cost of doing business. This represents an increase in my cost of doing business of $3,232 per month or a per-gallon charge of 0.084 cent. This is the point we are trying to get across, to show what has happened to our margins and the fact that we are a captive market. We only have one supplier, so we do not go out in the marketplace and purchase product from wherever we want.

We would also like to say that we the dealers of this association believe that the service stations of today provide the motoring

public with a very necessary and desired service. We also have worked with Amoco as partners in the past, and we will do our best to do so in the future. We do not know if we favor very much Government intervention, but we do feel that there are some areas that you would know much more than we would with regard to what is necessary to protect our interests as dealers and ultimately the consumer.

Thank you.

Senator DIXON. Thank you, Mr. Lord.

This is a very extensive statement, and I am going to ask that the court reporter include the entire statement in the record.

Our next witness is Mr. Stan Rodman, managing director of the Illinois Gasoline Dealers Association.

I understand you are going to introduce two other witnesses.

What is your address, Mr. Rodman?

STATEMENT OF STAN RODMAN, MANAGING DIRECTOR, ILLINOIS GASOLINE DEALERS ASSOCIATION, BARRINGTON, ILL.

Mr. RODMAN. I will make mine short and sweet, Senator.

Mr. Chairman, I might apologize for having spelled your name wrong. I am a recent addition to the State of Illinois, and I had not realized how you spell it, so we will correct that.

Senator DIXON. I will forgive you one time, Mr. Rodman.

Mr. RODMAN. I have to say that you are a very brave individual.

Senator DIXON. Is your address P.O. Box 692, Barrington, Ill.?

Mr. RODMAN. Yes, it is, Senator.

Senator DIXON. Good.

Mr. RODMAN. Attempting to understand three decades of abuse in 3 hours is a monumental task. We could certainly fill this room with dealers, tens of thousands, who would have stories to tell you, all of which would be tear jerkers of dreams dashed, hopes faded, bankruptcy, and what-have-you. I do not want to address that point before introducing our people.

I would like to say this. I think the U.S. Government has a duty to the people of this country, and I think the Illinois legislature also has a duty to the people of this State to look at a marketing situation which has evolved over four or five decades which is really not competition at all.

When the major refiners control the gasoline from wellhead to pump, they have unlimited authority and rights that no other industry enjoys in our economic system.

We are being decimated. We are the foot soldiers of the war. We cannot win. We have two dealers here who will tell you their stories, but what I am saying is this: In 1985 it is projected that there will be 159 million vehicles on the roads of this Nation. In 1985 the service stations, which one time numbered 227,000, are projected to be at 135,000, practically half of what they were in 1969.

Senator DIXON. Pardon me for interrupting. Do you know how many there are in this State?

Mr. RODMAN. Yes, I do. There are 6,504 today. They are pumping on the average of 55,000, or 4.5 million gallons in Illinois.

I have, incidentally, and I intend to introduce into the hearing record, an extremely comprehensive report on gasoline marketing

trends and choices. We were very fortunate. We got this from the staff of the Governor's Energy Council in Pennsylvania. Very much of what is in this report is applicable to Illinois.

Illinois is the sixth State in the country, and Pennsylvania is the seventh from the standpoint of gasoline pumping and operation. There may be some disparities, but we think the majority of what you will find in this report is applicable in Illinois, and it was done over 4 months. It is extremely comprehensive. We could not even hope to cover it.

I think when you read this, you will have the facts and figures that you need.

Senator DIXON. We will put that report in the record, Mr. Rodman, without objection.

Mr. RODMAN. I appreciate that.[1]

I would like to introduce two individuals who do have stories to tell: Gene Stewart, who has run three Standard stations at one time and now operates two; and Vince Lacke, who is an Arco dealer who was pushed out by his company when they went to their AM–PM operation. With that, I will introduce Gene Stewart.

Most of these fellows are aware of the time limitation. They are going to attempt to just tell you what their problems are. We do have statements that we have already given to your staff.

Senator DIXON. Would you give us your address, Mr. Stewart?

STATEMENT OF GENE STEWART, CO-OWNER, STEWART & CLAYTON'S STANDARD, NORTH AURORA, ILL.

Mr. STEWART. My name is Gene Stewart. I live at 575 Republic, Batavia, Ill. 60510. I thank you and the ladies and gentlemen here for letting us voice our opinions.

As Mr. Rodman said, I have been an independent for many years. I have been in the service station business since 1962, not at the same location but in the field. I have seen many changes and good times and bad times, but I have never seen anything like it is today.

I feel that something has to be done at our end. Something has to be done with our credit cards and this cash discount.

I forgot to say that I am an Amoco dealer.

Prior to June 15 we operated at three locations. Now we are running two, one in Batavia, Ill., where my partner is my brother-in-law. It is a family affair, but we have a large investment in it. We have one full service facility, which is a carwash.

Most of the carwashes today cost quite a bit of money to maintain and operate and service. It is a situation where you wonder from month to month if you are going to be there the next month. You are running to the bank sometimes twice a day to make deposits, and you talk to Amoco about these questions, but there is nothing they can do about it. They say there is nothing they can do about the credit card; there is nothing they can do anything about—nothing they can do to help you.

I will not go to into all this; I am just going to touch the high points here. I went by the policy of always trying to follow their

[1] Information not available at time of going to press.

policy as much as possible. I have tried to be a good dealer, but there have been times that I have had to do some other things.

No. 1, let us go from the start here. In 1975, that was the first year that I went into Batavia at 206 East Wilson Street, station No. 15066. We had this business going pretty good. There was an independent station opened up down the street from me within 6 months after I purchased this and made a large investment. I lost 30 percent of my volume at this point.

So I go along for a while, and Amoco comes to me and says, "Well, you are having a hard time. Maybe we should lease you another station. It looks like you are going to have to have two stations and have one full service and maybe two or three pumpers in order to make this go."

At this time I took the station in Oswego in September 1976; I took the second station. It was a sweet rent at the start; it was $100 a month for the first 3 months. This periodically changed; each year it got higher and higher. It went from $100 to $300; it went from $300 to $600 and from $600 to $900, from $900 to $1,200, and I was forced out in June because I could not make any money there.

At the time I stopped buying from Standard Oil, because I was late on my statements every month. You just cannot operate a business that way.

At the second location, it had some very interesting things. We had taken this station over. It is in Oswego, if anyone is familiar with it, at Routes 34 and 71. It was pumping 30,000 gallons when I had taken it over. Two months after I had taken the station over, they closed both highways up, both 34 and 71, for resurfacing.

Well, I subsequently went down to 18,000. I stayed with it and kept going. We managed to survive OK there due to pulling money from the other location and supporting it.

After the streets were finished and everything else, we got the gallonage picking up each month, showing an increase in volume.

Senator, I had taken this station from that 30,000, then it went to 18,000, and we brought it back up to 156,000 gallons. I have seen one jobber and one independent come in that area, and my volume went to 30,000, and I was pricing at 2 cents a gallon on what I was paying for it.

I got the gallons back up to 60,000 and unloaded it back to Amoco in 1979. Prior to unloading this station in 1979 though, I had allocation. This was No. 1 for going down to the second station; I knew what the allocation was, so I had taken this station so that if I could build up a good volume I would have a good allocation at the other station.

Prior to me becoming the station owner of the third location that we purchased, which is in the statement you have a copy of, I had a decent allocation before the independents and jobbers opened up, so I took the station in June 1979 in North Aurora, station 15506. My brother-in-law and I put up our homes and a lot of money together.

All we have had is talks and promises that the company would put in computers and help us along with things and do certain things. The computers never came in. They said that policies changed, so we never got the computers in. It is the same old thing

all the time: You get the promises and everything else, and you just have to do everything you possibly can to survive.

I do not know anything else to say other than what Mr. Lord said and Mr. Rodman said; it is pretty much on the record. It is very touch and go.

I would like to make one other thing clear. The jobbers are complaining about their profit. It is the same thing we have been complaining about for years. The jobbers are also in retail. Maybe Amoco has come up with a little problem with the 0.8 of a cent for the jobbers and 2.8 for the dealers. The reason Amoco did this—and I would like this to go in the record—is the jobbers were competing against us with the same location. How does the customer know if it is a jobber or dealer? These are some of the things that have happened in our industry.

When you get places like one of the independents that opened in Oswego, a Mobil jobber, and the other was a Price Petroleum which owns maybe 20 or 30 outlets—we were selling with 2 cents of our cost, and these people were at as much as 8 and 10 cents a gallon under us. That is why it went down from 156,000 back down to 30,000.

I would like the jobbers to make money. I would like to see the dealers make money. I think something needs to be done with legislation or some type of system to make these things come out, but there are problems on both sides.

Senator DIXON. Let me get your statement in the record, Mr. Stewart, and we will hear the last witness. Then we will try to see if we can find out what you folks think ought to be done.

What is your name, sir?

Mr. LACKE. Vince Lacke, sir.

Senator DIXON. Mr. Vince Lacke. Where are you from, Vince?

STATEMENT OF VINCENT J. LACKE, JR., FORMER ARCO DEALER, TIPPERY HILLS, ILL.

Mr. LACKE. I am from Tippery Hills, Ill., Mr. Chairman.

I had a service station in Oak Park. It was an Arco station. From 1977 it was a full service station.

Senator DIXON. Do you have a prepared text?

Mr. LACKE. Yes, I do.

In 1977 Arco came along and said they had made a survey, and they said it was no longer a lucrative business for a full service station, and they converted it to a minimart. The rent would be 10 percent of the minimart's sales. Operators could select their own hours and receive a franchise. Completion of construction would be in 60 days. Investment required was $10,000 to $12,000 for the first 30 days, to sell gasoline at 1 percent of profit. We could get our investment back after termination by either party.

The actuality of the fact is that construction took from October of 1977 to the end of January 1978. Instead of selling gasoline for 30 days at 1 percent profit, we were forced to for 90 days.

When we complained with the original agreement, we were harassed and pressed into a 24-hour operation. We contacted the bookkeeper, and the bookkeeper suggested that we raise the price of gasoline, and the salesman from Arco called the bookkeeper and

said it was none of his business to tell the dealer to raise the gasoline price to raise profit.

After 2 years fighting with the oil company, they wanted $19,000 more in investment in the franchise. I just did not do it.

I have got a full report. I just wanted to make it short for you, so you would have it here.

Senator DIXON. Thank you, Mr. Lacke. We will put your statement in the record as well, without objection.

I take it from the testimony of all of you is that one of the things you are indicating to this committee is that the majors have continually raised the rent and other costs of doing business, and it is implied in what you say that you think that those rental costs have been raised outside what would be a reasonable rental increase in the marketplace. Is that substantially what you are suggesting to this committee?

Mr. BRAWAR. That is right.

Senator DIXON. Mr. Rodman?

Mr. RODMAN. There is no doubt that the oil companies have found a hole in the Petroleum Marketing Practices Act, which was passed in the late 1970's, and that is basically what they are attempting to do.

What they are attempting to do is two things. One is recapture a great amount of money that they would otherwise lose because the volume is no longer coming in, and gasoline consumption has leveled off.

Senator DIXON. The volume has gone down because people are trying to conserve, because of higher prices, they are driving less, and things like that. Is that right?

Mr. RODMAN. That is correct.

Senator DIXON. And where are you suggesting—I think I get two things—is the rentals and then what you call TBA, the tires, batteries, and accessories.

Mr. RODMAN. That has been around for years—the course of nature of the oil companies in attempting to put their own brand and product lines in the service station, which basically circumvents the right of the dealer to select that line which would be most profitable. It is well known and well documented.

Keep in mind that what the oil companies are doing is selectively knocking out the small, independent service station operator, because he is just not in their plans for the future.

Senator DIXON. Is that what you are suggesting here, incidentally? Are you suggesting, Mr. Rodman, that the majors are trying to eliminate the independent dealers who sell their products, so that they will own all of the stations themselves?

Mr. RODMAN. Exactly. We can see that trend taking place.

Senator DIXON. Is that the unanimous opinion of the panel? Is that what you are testifying to here?

Mr. RODMAN. Yes.

Senator DIXON. If I may pursue that, Mr. Rodman, I presume that you would be reasonably in agreement with me that as prices go up, rentals go up.

Mr. RODMAN. The rental, Senator, was one way around the Petroleum Marketing Practices Act. In other words, the abusive nature of the lease cancellation was covered by the PMPA, which

meant now that in order for the oil company to gain that location or at least get that dealer out, at the time when there was allocation and they needed that allocation for their larger gas-and-go operations, was to push a man out of business by making his rent so unreasonable that the man could not stay there, regardless of how efficient an operator he might be.

Senator DIXON. I understand what you are saying.

The point I wanted to see if we had an agreement on is this: You are not quarreling that they do not have a right to raise the rent. Obviously, the difference in rent between, let us say, 1978 and 1982 could be at least a significant amount.

Mr. RODMAN. When you tell me 15 or 20 percent, that is fine. When you say 400 percent, I say there is a problem.

Senator DIXON. That is what I am trying to develop here.

Mr. OBIED. Senator Dixon, the other point was this. I do not know if you overlooked it or not. In my statement I said that in the early years, up until 1975 and 1976, we were on a gallonage rental—2 cents a gallon or whatever the rent was at that time. Then all of a sudden come the shortages from the allocation period, and we were denied 60 or 70 percent. That is all we were working on. The oil companies foresaw this and went from that rent to a fixed rental, including our real estate property and some of the improvement properties. From that point on it kept escalating.

Senator DIXON. Do you have a lease arrangement with the major that you represent?

Mr. OBIED. Yes, I do.

Senator DIXON. How many years lease?

Mr. OBIED. A 1-year, but a 4-year renewable.

Senator DIXON. Is the rental rate negotiable each time?

Mr. OBIED. No. They tell us what the rental is at the last rental, but then they send us a registered letter saying, "Your new rent will be * * *."

Senator DIXON. In other words, you do not have a lease agreement that says that the first year the rent is $400, the second year it is $500, and the third year it is $600.

Mr. OBIED. No.

Senator DIXON. You have a rental the first year of x amount of dollars. The company will indicate to you in the renegotiation process what the rental will be for the next year.

Mr. OBIED. The renegotiation—that is a registered letter, Senator, telling us what it is—that renegotiation process.

Senator DIXON. OK. Is that generally true?

Mr. RODMAN. The oil company controls the rent with the option to raise it on an annual basis.

Senator DIXON. But no indicated amount of the raising——

Mr. RODMAN. Whatever they wish.

Mr. LORD. Rentals have gone up. We do not dispute that they can go up. However, if we did not have the improvements in the facility to make us more viable in the location, I also pointed out that the oil companies have historically subsidized us in certain areas—rentals and different programs—to help us to be viable in the marketplace because we were selling their product. We sell only their products in the market. So they have multiple tools for collecting profits out of every individual facility. Rent is just one of

them. Product is another. They have multiple tools to collect profits out of our facility.

If our profits did not go up—we are working now on a smaller margin than we were 5 or 6 years ago. Our exposure to liability is a good example. In 1974 we were selling gasoline for 45 or 50 cents a gallon. Now we are selling it at more than $1.15. We have nothing more to show out of that volume than we did then. We are on a cents per gallon, and everyone else deals in percentages.

Mr. BRAWAR. Regarding rentals, what is happening is this. On this rental program, the rent charged to the dealer would include all the taxes that have to go on that property; that is part of the rental. The hardest part is the real estate tax. A company can evaluate their property, or you can have the county board tax assessor evaluate the property. To make their property look valuable to the stockholders, and all that, they put in a higher, inflated cost of the property, not what they paid for it but what they think it is worth. There is no way you can rebut that argument. In that way, every year that real estate taxes go up, they tag on the increased cost of taxes to the dealer's rental, and I do not have to tell you, Senator, how the rentals have been going up in Cook County.

Senator DIXON. No, you do not have to, Mr. Brawar.

Do I understand it to be the consensus of this panel that you think there should be some type of legislative response? I took that to be the position of almost everyone here in this dealer/retailer panel?

Mr. BRAWAR. One more thing: Do you think it is fair to have a 3-year lease from the oil companies to the dealer, spelling out what this lease is going to cover, but everything except rent has got a 3-year lease, but they have the right to readjust the rent and raise it again each year that they take another look? In other words, you sign the lease. That should guarantee you that there will be no changes made on anything as far as the property is concerned, but the companies can give you a 3-year lease and raise the rent every 12 months if they want to or every 6 months if there is a change in evaluation.

Senator DIXON. That is of course a unilateral lease. You do not really have a lease beyond the first year, quite obviously; you have a 1-year lease.

Mr. BRAWAR. They tell you it is a 3-year lease.

Senator DIXON. Well, as a matter of law it is not.

Mr. BRAWAR. Yes, it is, Senator. I hate to quarrel with you.

Senator DIXON. Of course the price can be changed, Mr. Brawar.

Mr. BRAWAR. The dealer's bill is supposed to protect the dealer from being terminated unjustly, except they do not control the rent.

Senator DIXON. It must be obvious to you, Mr. Brawar, that in the second year of the lease they can make the rent whatever they want to make it. You have an enforceable 3-year lease at their price.

Mr. BRAWAR. Right.

Senator DIXON. I think we understand one another.

Mr. BRAWAR. OK.

Senator DIXON. First let me establish this: You have heard the testimony of the jobbers, who are what we would call in the trade

the middlemen. I take it that most of you here who have testified deal directly with a major oil company. Is that not true in the case of every one of you?

Mr. BRAWAR. That is correct.

Senator DIXON. None of you buys from jobbers. You buy from your oil company that you deal with. Is that true?

Mr. STEWART. Senator, I have been buying from a major oil company, but at one time, as I mentioned a few moments ago, I purchased directly through the jobber and saved 3 cents a gallon. The reason I did this, as I said before, is that I saved 3 cents a gallon at that time going directly to the jobber, and I also was dealing with Standard Oil at the same time.

Senator DIXON. Yes; but it is a safe statement that your concerns and problems with the majors are different than the jobbers. That is to say, you are expressing to this committee your problems, as you perceive them, with the major oil companies. You have been here in the audience as the jobbers have testified, and your differences with the majors are of a different sort than the jobbers' differences with the majors.

Mr. RODMAN. Senator, do not lose sight of the fact that there is an association in Illinois representing 1,600 dealers. Our dealers deal with major suppliers and equally with independents, so we are representing people who have business relationships with both strata of the market. I am concerned with the relationship both of the major refiner on a direct basis and also of the jobber with whom he may even be competing, or if not competing, he is competing with that jobber's outlet in some other area of the community.

In Chicago most of the people are dealing on a direct refiner basis. In the hinterlands they are dealing with the jobber.

Senator DIXON. Yes. Now let me ask you this question: I sense that there is one or two common areas that you both complain about when you are before this committee. The first is the credit card practice. You are complaining, are you not, about the credit card practice?

Mr. RODMAN. We feel they are extremely unfair and arbitrary. We are glad to see some major oil companies—Shell and Sunoco chief among them—who have already come out with public statements that they are not charging their dealers for expediting credit cards.

Senator DIXON. May I pursue that a moment, Mr. Rodman?

Mr. RODMAN. Surely.

Senator DIXON. You would concede, would you not, that there is a cost inherent in a credit card practice?

Mr. RODMAN. Very definitely.

Senator DIXON. That is, if all of us could deal cash on the barrelhead all the time—in the best of all worlds, if you got cash every time, you would prefer doing business that way to a credit card business.

Mr. RODMAN. I would concede that, but, as Mr. Stewart said, keep in mind that we are captive accounts to the major refiners. The credit card, which incidentally by 1985 is suspected to be in the wallets of 107 million Americans—they are in about 72 million right now—that credit card is a way of introducing and maintain-

ing brand loyalty and allegiance. When you ride into a Standard station or a Shell station, you have made that commitment to buy that product. True competition in this industry would only exist, Senator, if you rode into an independent service station operation where you had a multiple choice of gasoline products to buy, perhaps two branded and one private label, so that the motorist could be served by that individual.

If Mr. Lord or Mr. Stewart lose that customer—and incidentally that buying decision has to be made when the man is going at 35, 40, or 55 miles an hour down a major highway, in a split second—when that decision is not made, he not only loses the gallonage, he loses the opportunity to service that motor vehicle.

So the credit card was only a means of establishing brand loyalty. I would say this to you: They charge the customer a finance charge on the money that is being carried on a monthly basis, so they are making more money. They are making their money back off me and off you.

Senator DIXON. May I interrupt to say this, Mr. Rodman? I know a little bit about the credit card business. I used to be on the board of directors of a bank. I would have to say that it would be generally accepted in the marketplace that there is an expense involved in the credit card relationship with the consumer that has some value.

What I am trying to determine here is, Do you as dealer-retailers quarrel with that? That is to say, my sense of it was that what you and the jobbers were saying is that it was an unreasonable distribution of cost at your expense rather than the majors' expense. But I did not understand you to be saying there ought not to be a for-cash-purchase adjustment. I sense that the average consumer feels that it is not unreasonable to get a cash purchase adjustment. Do you follow what I am saying to you?

Mr. RODMAN. Yes, but, Senator, historically when you have had charges tied to cards—let us say the bank cards or the entertainment cards such as American Express—that has been leveled back at the consumer not at the merchants who expedite the transaction.

Senator DIXON. It is not true in all cases, Mr. Rodman, but of course you are entitled to your view; I do not want to argue with you about it. All I am trying to determine is this. I will just ask it this way. Do you, as dealer-retailers, say there ought not to be a cash purchase adjustment in those situations where someone purchases for cash?

I come into a service station, and I buy 20 dollars' worth of gasoline, and I give you a card for the 20 dollars' worth of gasoline, and you charge me whatever it is for lead-free gasoline per gallon in your particular service station. Let us take a figure very quickly that would be a standard rate in Chicago today. What would it be?

Mr. OBIED. $1.40. That is the credit card price.

Senator DIXON. Now, are you saying that if someone buys for cash, they ought not to have an adjustment? I think that if you are saying that, there would be an argument among consumers about that.

Mr. LORD. I would like to answer that question. We the dealers are the tool that the oil companies use to pass the credit card costs

along to the consumer. They surveyed consumers—credit card holders—and found by an overwhelming majority that the consumer refused to pay a fee for holding an oil company credit card.

Sixty-five to seventy-five percent of my business is credit card, because basically, if I were so competitive in the marketplace with Amoco as a supplier, I would not have that type of ratio because people who were cash conscious—people who purchase more on impulse, for price only—I would have a larger share of that market.

The credit card costs are being passed along to me, and the discount is also being expected to be paid by me.

I have nothing in writing, as I said earlier, from Amoco that I am getting any discount.

Senator DIXON. If I may interrupt, Mr. Lord, it does seem to me that what you are saying is that you object to the fact that the cost is all on you.

Mr. LORD. The whole cost—correct.

Senator DIXON. What I am trying to determine is this: Do you feel that that is the problem—that you are not being treated well by the majors in respect to who assumes that cost, or are you saying there ought not to be the allowance for the payment in cash instead by credit card?

Mr. LORD. I think that dealers, on the whole, do not feel that the discount-for-cash program is bad. We feel that a discount-for-cash program can be good if it is fair and equitable both to the companies they are purchasing from and to the dealers.

Right now, as I have stated and offered evidence on, it is all one-sided. That is the problem. With this type of problem, we are not going to be around.

Senator DIXON. I understand, Mr. Lord. I think what you are saying is quite clear.

Mr. RODMAN. Could I say one thing? If the oil companies have the ability to control the retail market through various means, then any cost level on the dealer is a cost which he cannot, of necessity, pass on to the motoring public but must absorb. Sixty-three percent of all Illinois gasoline is sold at self-service pumps, yet when you walk into a station, the oil company does not reduce their tankwagon price for the dealer who is selling self-service versus full-service; it is up to that dealer to have to raise his full-service in order to offset the cost of losing 40, or 50, or 60 percent of his customer base through self-service.

What that means is that, while you have this tremendous disparity in service stations of almost 15 and 20 cents for a full service gallon of gas as opposed to a self-service—what Mr. Lord and Mr. Stewart are saying is that any time the refiners can control your end product costs, they can load everything on to your back, and you have no way of passing it on. That is why these guys are going into bankruptcy in unprecedented, traumatic, economic experiences. We are playing with a stacked deck out there.

If you went to an Atlantic City casino and knew the dealer was going to deal himself an ace and 10 every time he played you, you would be a dummy to step up to that table. Well, we have to question our sanity too unless the U.S. Congress can give us laws that we can live with. You will not have the basic full service dealers; you are going to be buying your gas at K-Mart's and convenience

store outlets, which now have about 5.7 percent of the market, but God help you if you have a flat tire on a Sunday afternoon and want to find a service station available for service. Then you want us, but then you cannot have us.

Senator DIXON. I want to thank you, gentlemen, for contributing your point of view to this hearing. I assume that all of the things that you wanted to be said have either been fully discussed or represented in your statements and are now in the record.

You may rest assured that your testimony, along with that of the jobbers whom we have previously heard, will be fully reproduced and made available in full form to every member of the Small Business Committee of the U.S. Senate.

Mr. RODMAN. Senator, I have one request. If, after you look through all of this testimony in 3 or 4 weeks and decide that you understand it, would you please let us know?

Senator DIXON. You may rest assured that we will let you all know about what has transpired here.

Have you all put in the record everything you want to put in the record?

Mr. RODMAN. Incidentally, the facts and figures that I have stated come out of the National Petroleum News Yearbook of 1982. While I only have one copy, if your assistant does want copies, I will send them along to you in Washington.

Senator DIXON. Thank you, Mr. Rodman.

Without objection, the full statements of all the panel members will be included in the record at this point.

[Material referred to follows:]

ILLINOIS SERVICE STATION OPERATORS ASSOCIATION

JAMES BRAWAR, Administrator

5875 N. LINCOLN AVE.
CHICAGO, ILL. 60645

PHONE: 728-8487

OCTOBER 12, 1982

SENATOR ALAN DIXON

MR. CHAIRMAN:

WE WISH TO THANK YOU FOR THIS OPPORTUNITY TO EXPRESS OUR FEELINGS REGARDING THE PROBLEMS THAT THE SERVICE STATION OPERATORS ARE SADDLED WITH AND THEIR INABILITY TO MAKE A PROFIT ON GASOLINE.

THEY ARE ASKED TO PARTICIPATE IN PROGRAMS, BY THEIR SUPPLYING COMPANIES THAT ARE DETRIMENTAL TO THEIR FINANCIAL FUTURE.

FOR EXAMPLE: DEALERS ARE BEING CHARGED WITH A SURCHARGE ON THEIR CUSTOMERS CREDIT CARDS AND IN MANY CASES ARE ASKED TO PARTICIPATE IN GIVING CASH REBATES TO CASH CUSTOMERS. DEALERS ARE ALSO BEING SADDLED WITH UNECONOMICAL RENTS.

IN 1978, THE PRESIDENT SIGNED INTO THE LAW, THE PETROLEUM MARKETERS PRACTICE ACT OR DEALERS DAY IN COURT BILL, WHEREBY A DEALER COULD NOT BE TERMINATED WITHOUT DUE CAUSE. THIS LAW WAS SUPPOSED TO PROTECT LEASEE DEALERS FROM ANY UNREASONABLE DEMANDS BY THEIR SUPPLIERS OR BEING UNJUSTLY TERMINATED BY THE WHIMS OF THE SUPPLIERS REPRESENTATIVES, BUT INSTEAD, THE SUPPLYING COMPANIES, BY CIRCUMVENTING THE LAW,

ARE STILL CONTROLLING THE DEALERS WITH THREATS OF UNREASONABLE RENTALS, SO EVEN THOUGH A DEALER WHO FELT HE WAS ENTITLED TO RUN HIS BUSINESS AS HE SAW FIT FOR HIMSELF, IS STILL BEING DOMINATED BY THE COMPANIES WITH THE FEAR OF RENT INCREASES, MAKING IT IMPOSSIBLE FOR HIM TO STAY IN BUSINESS.

ILLINOIS SERVICE STATION OPERATORS ASSOCIATION

JAMES BRAWAR
ADMINISTRATOR

JB:SKV

OCTOBER 12, 1982

MY NAME IS JULIAN PASCHAL. I HAVE BEEN A SERVICE STATION DEALER WITH SHELL OIL COMPANY FOR FOURTEEN YEARS. AT PRESENT, MY ADDRESS IS 8701 SOUTH COTTAGE GROVE AVENUE IN CHICAGO.

IF IT WASN'T FOR THE HIGH RENTAL THAT I PAY, I WOULD BE SATISFIED WITH MY OPERATION.

I APPRECIATE THE FACT THAT SHELL OIL COMPANY IS HELPING SHELL DEALERS BY OFFERING TO ACCEPT CREDIT CARDS FROM ANY COMPETITIVE COMPANY WITHOUT ANY ADDITIONAL COST TO ME WHICH HAS HELPED ME TO INCREASE MY BUSINESS.

October 9, 1982

Metropolitan Amoco Dealers Assoc.
840 N. Main St.
Glen Ellyn, IL. 60137

Senator Alan Dixon
456-A Russell Building
Washington, D.C. 20510

Dear Senator Dixon:

Thank you for allowing us to speak before your commitee. Our newly formed association consists of Amoco Dealers.We currently have 140 members and we're growing daily. Our association was formed to communicate as a group with Amoco Oil and our legislative bodies on topics concerning our membership.

The future of our member Amoco dealers doesn't look to promising without help from Amoco or our legislature.We do support H.R. 5362 introduced by Representative Annunzio .

We hope the information listed will aid you in understanding our business and our plight.

I. DEALER HISTORY
   A. Changes in our business, page 1

II. GASOLINE MARGINS
   A. Method of determining dealer margin, page 2
   B. Dealers margins are dropping not increasing

III. CREDIT CARD FEE
   A. Dealers are a captive market, page 3
   B. Amoco profits from products sold on their card yet their fee of 4% exceeds bank card rates.
   c. Dealers are unable to past the cost through to the consumer therefor he is sustaining losses while Amoco continues to profit.

IV. RENTAL PROGRAMS
   A. GALLONAGE rental, page 4
   B. Fixed rental
   C. Amoco subsidized stations until Govt. controls.
   D. Rental increases far in excess to other industries.
   E. Again the Dealer is a captive customer.

We believe that the service stations of today provide the motoring public with a very necessary and desired service.We have worked as partners with Amoco in the past and will try to do so in the future. However,we also need legislative support to eliminate programs that adversely affect our businesses and ultimately the consumer.Thank you for this opportunity to express our veiws.

Sincerely,

Rick Lord, President

DEALER HISTORY

The service station has changed dramatically the past 15 years. Stations sold gasoline,oil,automotive accessories and did minor automotive repairs. Investment was small,Dealers worked long hours and developed brand loyalty by giving good service and selling quality products. Automobiles changed and customers demanded better service through professionally managed stations. Business investment rose from a few thousand dollars to todays level which can easily exceed one hundred thousand dollars. Dealers have survived Government controls,Shortages, market change and normal increases in the cost of doing business.

Many dealers businesses failed while they were under Government regulations. Now that controls have been lifted we find ourselves in worse financial condition than at any time in our history. Dealers looked to their supplier for direction and a continuing partnership distributing the suppliers products.

Our supplier has passed costs of operation to the Dealer that it has historically absorbed. The Rental,Maintainance and Credit card programs are examples of which that have increased the cost of operation to Dealers Thousands of dollars per month. Many Dealers are on the verge of bankruptcy due to these changes in marketing. Large,small,multi-location dealers express the same concern. What will happen to my business,career and future if conditions continue.

GASOLINE MARGINS

Gasoline margins are determined by subtracting product cost plus taxes from pump price. (ex. D) Pump prices are determined by the marketplace . High prices reduce volume, low prices increase volume, irregardless of margin. Amoco's wholesale dealer tank wagon (D.T.W) price determines the dealers margin. If a dealer prices by margin alone his pump price may be so high that he looses a substantial part of his business. The dealer is a captive customer.

Dealers with gas only outlets rely on a weighted margin (ex C.) multiplied by gallons sold to cover expenses. They do not have ansillary income(auto repairs, car wash, mini mart) to help them turn a profit. With full serve and car wash locations running losses all dealers have been affected.

Example B shows a months sales of gasoline. With a 65% credit card ratio this dealers gasoline gross profit would drop from $5201.35 to $2289.35. If the dealer also participated in the Discount for cash program he would be left with $1169.35.

Company employees continue to veiw dealers break even on gasoline at a zero margin.

Under Govt. controls independent marketers took a large share of branded gasoline sales from us. Their position continues to be strong while the branded dealers gets weaker by the day.

CREDIT CARD FEE

Amoco instituted a 4% credit card fee on all credit card sales July 1, 1982. This fee is being charged to the dealers on all credit card sales they make. Amoco's survey of credit card customers said that the credit card holder refused to pay a fee for the use of Amoco's card.

Amoco pushed hard to build their credit card program to what it is today, enlisting the dealer to promote the card whenever possible. The dealer and Amoco recognizes the credit card customer as our best customer. There are many dealers in our association whose credit card percentage of sales exceeds 60%. Amoco has pushed the cost of the credit card onto the dealers back. The 4% fee exceeds all bank charge card fees. Amoco profits off of the gasoline and T.B.A. (tires,batteries and accessories) sold through each station. The dealers in the Chicago market were told by Amoco that the credit card fee would allow them to be competitive with everyone on the street,by stripping the cost of credit out of gasoline. The Dealers present at our last meeting,October 7, 1982 stated by unamious vote that the credit card program has cost them money and that they have not had volume increases or margin increases to offset the fee. To date the dealers have been unable to past this cost along to the consumer without volume reductions. The credit card fee has put the dealers operating costs so high that many will perish. (ex. A, ex. F)

RENTAL PROGRAMS

Station rental was based upon the formula Gallons purchased X a cents per gallon amount. The more a station pumped the higher it's rent was.(example G) Each station also had a minimum rental amount that was usually less than $ 800.00. This method of determining rent was used throughout the fifties,sixties and early seventies. Rent ceiling limits and reductions were common despite low gasoline prices ($.25 to .45 per gal.). Amoco also subsidized staions in competitive areas with a price support program. This program reduced the normal cost of gasoline to the dealer allowing him to drop his price, maintain his margin and increase his stations volume. The company and the dealer benefited from programs like this.

Today rentals are based upon replacement cost of the facility. Subsidies are not extended for high volume or competitive areas. Amoco felt this method of determing rent amount was more equitable. Dealers found that the fixed rental amount usually exceeded the rent they would have paid on the gallonage method. While under Government regulations dealers volumes were reduced by as much as thirty per cent. The fixed rentals greatly exceeded the rental dealers would have paid on the gallonage program.

Fixed rentals for many dealers increased 50% in 1981 and another 20% to 30% in 1982. (ex. F)

Amoco can demolish an existing full serve facility rebuild it with a self serve pumper and charge a lower rent due to the method used in determing rent.

GALLONS 40000

EXPENSES	MONTH	PER GAL	DAY	YEAR
RENT	3161.00	.079	105.37	37932.00
ELECTRIC	350.00	.009	11.67	4200.00
WATER	75.00	.002	2.50	900.00
GAS	250.00	.006	8.33	3000.00
MAINT. B.	200.00	.005	6.67	2400.00
MAINT. V.	0.00	0.000	0.00	0.00
MAINT. W.	0.00	0.000	0.00	0.00
INSURANCE	150.00	.004	5.00	1800.00
M. INS.	180.00	.004	6.00	2160.00
SHORTAGE	100.00	.002	3.33	1200.00
PROF. S.	180.00	.004	6.00	2160.00
WASTE R.	35.00	.001	1.17	420.00
SUPPLIES	150.00	.004	5.00	1800.00
DAMAGE	0.00	0.000	0.00	0.00
LISCENSES	50.00	.001	1.67	600.00
TAXES	175.00	.004	5.83	2100.00
STA. VEH	150.00	.004	5.00	1800.00
C.C. FEE	1120.00	.028	37.33	13440.00
INTEREST	75.00	.002	2.50	900.00
PAYROLL	2400.00	.060	80.00	28800.00
UNIFORMS	160.00	.004	5.33	1920.00
PHONE	75.00	.002	2.50	900.00
ADVERTI.	50.00	.001	1.67	600.00
TOTAL	9086.00	.227	302.87	109032.00

CONSERVATIVE EXPENSES NECESSARY TO MARKET GASOLINE

GALLONS 60000

EXPENSES	MONTH	PER GAL	DAY	YEAR
RENT	3161.00	.053	105.37	37932.00
ELECTRIC	350.00	.006	11.67	4200.00
WATER	75.00	.001	2.50	900.00
GAS	250.00	.004	8.33	3000.00
MAINT. B.	200.00	.003	6.67	2400.00
MAINT. V.	0.00	0.000	0.00	0.00
MAINT. W.	0.00	0.000	0.00	0.00
INSURANCE	150.00	.002	5.00	1800.00
M. INS.	180.00	.003	6.00	2160.00
SHORTAGE	100.00	.002	3.33	1200.00
PROF. S.	180.00	.003	6.00	2160.00
WASTE R.	35.00	.000	1.17	420.00
SUPPLIES	150.00	.002	5.00	1800.00
DAMAGE	0.00	0.000	0.00	0.00
LISCENSES	50.00	.001	1.67	600.00
TAXES	175.00	.003	5.83	2100.00
STA. VEH	150.00	.002	5.00	1800.00
C.C. FEE	1680.00	.028	56.00	20160.00
INTEREST	75.00	.001	2.50	900.00
PAYROLL	2400.00	.040	80.00	28800.00
UNIFORMS	160.00	.003	5.33	1920.00
PHONE	75.00	.001	2.50	900.00
ADVERTI.	50.00	.001	1.67	600.00
TOTAL	9646.00	.161	321.53	115752.00

CONSERVATIVE EXPENSES NECESSARY TO MARKET GASOLINE

GALLONS 80000

EXPENSES	MONTH	PER GAL	DAY	YEAR
RENT	3161.00	.040	105.37	37932.00
ELECTRIC	350.00	.004	11.67	4200.00
WATER	75.00	.001	2.50	900.00
GAS	250.00	.003	8.33	3000.00
MAINT. B.	200.00	.002	6.67	2400.00
MAINT. V.	0.00	0.000	0.00	0.00
MAINT. W.	0.00	0.000	0.00	0.00
INSURANCE	150.00	.002	5.00	1800.00
M. INS.	180.00	.002	6.00	2160.00
SHORTAGE	100.00	.001	3.33	1200.00
PROF. S.	180.00	.002	6.00	2160.00
WASTE R.	35.00	.000	1.17	420.00
SUPPLIES	150.00	.002	5.00	1800.00
DAMAGE	0.00	0.000	0.00	0.00
LISCENSES	50.00	.001	1.67	600.00
TAXES	175.00	.002	5.83	2100.00
STA. VEH	150.00	.002	5.00	1800.00
C.C. FEE	2240.00	.028	74.67	26880.00
INTEREST	75.00	.001	2.50	900.00
PAYROLL	2400.00	.030	80.00	28800.00
UNIFORMS	160.00	.002	5.33	1920.00
PHONE	75.00	.001	2.50	900.00
ADVERTI.	50.00	.001	1.67	600.00
TOTAL	10206.00	.128	340.20	122472.00

CONSERVATIVE EXPENSES NECESSARY TO MARKET GASOLINE

SELF SERVE

	UNITS P.	PRICE	ROAD T.	ADJ.S.	S. TAX	COST	UNIT MARG	G. PRFT	% SALES	% PROFIT
REMIUM	13600	1.409	.075	1.334	.066	1.187	.155	2114.257	.170	.406
EAD FREE	42400	1.259	.075	1.184	.059	1.137	.063	2668.744	.530	.513
EGULAR	24000	1.169	.075	1.094	.054	1.097	.017	418.351	.300	.080
TOTAL	80000	1.279				1.140	.079	5201.352		

OT. VOL.	80000	POOL MARG	.164	PREMIUM	13600	.170	TOTAL P.	5201.352
FULL	0.000	" SELF	.079	LEAD FREE	42400	.530	ADJ. MGN.	.065
SELF	1.000	" FULL	.250	REGULAR	24000	.300	LESS FEE	2289.35
							LESS DISC	1169.35

OT. V.	80000	C.C. %	.650	FEE VOL	52000	AVG. G.	1.400	C.C.SUBJ	72800.00	C.C. FEE 2912.00
				CASH V.	28000			GAL. DISC	.04	TOT. D 1120.00

TOTAL VOLUME 40000 VOL. PER DAY 1333

	% SALES	GAL.	MARGIN	GROSS PFT	
PREMIUM	.170	6800	.154	1047.20	
REGULAR	.300	12000	.017	204.00	WEIGHT
LEAD FREE	.530	21200	.063	1335.60	MARGIN
TOTALS	1.000	40000	.078	2586.80	.065

TOTAL VOLUME 60000 VOL. PER DAY 2000

	% SALES	GAL.	MARGIN	GROSS PFT	
PREMIUM	.170	10200	.154	1570.80	
REGULAR	.300	18000	.017	306.00	WEIGHT
LEAD FREE	.530	31800	.063	2003.40	MARGIN
TOTALS	1.000	60000	.078	3880.20	.065

TOTAL VOLUME 80000 VOL. PER DAY 2667

	% SALES	GAL.	MARGIN	GROSS PFT	
PREMIUM	.170	13600	.154	2094.40	
REGULAR	.300	24000	.017	408.00	WEIGHT
LEAD FREE	.530	42400	.063	2671.20	MARGIN
TOTALS	1.000	80000	.078	5173.60	.065

TOTAL VOLUME 100000 VOL. PER DAY 3333

	% SALES	GAL.	MARGIN	GROSS PFT	
PREMIUM	.170	17000	.154	2618.00	
REGULAR	.300	30000	.017	510.00	WEIGHT
LEAD FREE	.530	53000	.063	3339.00	MARGIN
TOTALS	1.000	100000	.078	6467.00	.065

Anticipated gross profit produced . Weighted margin is the actual margin in cents per gallon .

PRODUCT: REGULAR COST 1.097
SEPT 14

PUMP $	RD. TAX	SALES TAX	T. WAGON	CASH MARGIN	C.C. CHG	CREDIT MARGIN
1.519	.075	.072	1.097	.350	.061	.289
1.509	.075	.072	1.097	.340	.060	.280
1.499	.075	.071	1.097	.331	.060	.271
1.489	.075	.070	1.097	.321	.060	.262
1.479	.075	.070	1.097	.312	.059	.253
1.469	.075	.070	1.097	.302	.059	.244
1.459	.075	.069	1.097	.293	.058	.235
1.449	.075	.068	1.097	.283	.058	.226
1.439	.075	.068	1.097	.274	.058	.216
1.429	.075	.068	1.097	.264	.057	.207
1.419	.075	.067	1.097	.255	.057	.198
1.409	.075	.066	1.097	.245	.056	.189
1.399	.075	.066	1.097	.236	.056	.180
1.389	.075	.066	1.097	.226	.056	.171
1.379	.075	.065	1.097	.217	.055	.162
1.369	.075	.064	1.097	.207	.055	.153
1.359	.075	.064	1.097	.198	.054	.144
1.349	.075	.064	1.097	.188	.054	.134
1.339	.075	.063	1.097	.179	.054	.125
1.329	.075	.062	1.097	.169	.053	.116
1.319	.075	.062	1.097	.160	.053	.107
1.309	.075	.062	1.097	.150	.052	.098
1.299	.075	.061	1.097	.141	.052	.089
1.289	.075	.060	1.097	.131	.052	.080
1.279	.075	.060	1.097	.122	.051	.071
1.269	.075	.060	1.097	.112	.051	.062
1.259	.075	.059	1.097	.103	.050	.052
1.249	.075	.058	1.097	.093	.050	.043
1.239	.075	.058	1.097	.084	.050	.034
1.229	.075	.058	1.097	.074	.049	.025
1.219	.075	.057	1.097	.065	.049	.016
1.209	.075	.056	1.097	.055	.048	.007
1.199	.075	.056	1.097	.046	.048	-.002
1.189	.075	.056	1.097	.036	.048	-.011
1.179	.075	.055	1.097	.027	.047	-.020
1.169	.075	.054	1.097	.017	.047	-.029
1.159	.075	.054	1.097	.008	.046	-.038
1.149	.075	.054	1.097	-.000	.046	-.046

PRODUCT: LEAD FREE COST 1.137
SEPT 14

PUMP $	RD. TAX	SALES TAX	T. WAGON	CASH MARGIN	C.C. CHG	CREDIT MARGIN
1.569	.075	.074	1.137	.357	.063	.295
1.559	.075	.074	1.137	.348	.062	.286
1.549	.075	.074	1.137	.338	.062	.276
1.539	.075	.073	1.137	.329	.062	.267
1.529	.075	.072	1.137	.319	.061	.258
1.519	.075	.072	1.137	.310	.061	.249
1.509	.075	.072	1.137	.300	.060	.240
1.499	.075	.071	1.137	.291	.060	.231
1.489	.075	.070	1.137	.281	.060	.222
1.479	.075	.070	1.137	.272	.059	.213
1.469	.075	.070	1.137	.262	.059	.204
1.459	.075	.069	1.137	.253	.058	.195
1.449	.075	.068	1.137	.243	.058	.186
1.439	.075	.068	1.137	.234	.058	.176
1.429	.075	.068	1.137	.224	.057	.167
1.419	.075	.067	1.137	.215	.057	.158
1.409	.075	.066	1.137	.205	.056	.149
1.399	.075	.066	1.137	.196	.056	.140
1.389	.075	.066	1.137	.186	.056	.131
1.379	.075	.065	1.137	.177	.055	.122
1.369	.075	.064	1.137	.167	.055	.113
1.359	.075	.064	1.137	.158	.054	.104
1.349	.075	.064	1.137	.148	.054	.094
1.339	.075	.063	1.137	.139	.054	.085
1.329	.075	.062	1.137	.129	.053	.076
1.319	.075	.062	1.137	.120	.053	.067
1.309	.075	.062	1.137	.110	.052	.058
1.299	.075	.061	1.137	.101	.052	.049
1.289	.075	.060	1.137	.091	.052	.040
1.279	.075	.060	1.137	.082	.051	.031
1.269	.075	.060	1.137	.072	.051	.022
1.259	.075	.059	1.137	.063	.050	.012
1.249	.075	.058	1.137	.053	.050	.003
1.239	.075	.058	1.137	.044	.050	-.004
1.229	.075	.058	1.137	.034	.049	-.013
1.219	.075	.057	1.137	.025	.049	-.022
1.209	.075	.056	1.137	.015	.048	-.031
1.199	.075	.056	1.137	.006	.048	-.042

PRODUCT: PREMIUM COST 1.187
SEPT 14

PUMP $	RD. TAX	SALES TAX	T. WAGON	CASH MARGIN	C.C. CHG	CREDIT MARGIN
1.629	.075	.078	1.187	.364	.065	.299
1.619	.075	.077	1.187	.355	.065	.290
1.609	.075	.076	1.187	.345	.064	.281
1.599	.075	.076	1.187	.336	.064	.272
1.589	.075	.076	1.187	.326	.064	.263
1.579	.075	.075	1.187	.317	.063	.254
1.569	.075	.074	1.187	.307	.063	.245
1.559	.075	.074	1.187	.298	.062	.236
1.549	.075	.074	1.187	.288	.062	.226
1.539	.075	.073	1.187	.279	.062	.217
1.529	.075	.072	1.187	.269	.061	.208
1.519	.075	.072	1.187	.260	.061	.199
1.509	.075	.072	1.187	.250	.060	.190
1.499	.075	.071	1.187	.241	.060	.181
1.489	.075	.070	1.187	.231	.060	.172
1.479	.075	.070	1.187	.222	.059	.163
1.469	.075	.070	1.187	.212	.059	.154
1.459	.075	.069	1.187	.203	.058	.145
1.449	.075	.068	1.187	.193	.058	.136
1.439	.075	.068	1.187	.184	.058	.126
1.429	.075	.068	1.187	.174	.057	.117
1.419	.075	.067	1.187	.165	.057	.108
1.409	.075	.066	1.187	.155	.056	.099
1.399	.075	.066	1.187	.146	.056	.090
1.389	.075	.066	1.187	.136	.056	.081
1.379	.075	.065	1.187	.127	.055	.072
1.369	.075	.064	1.187	.117	.055	.063
1.359	.075	.064	1.187	.108	.054	.054
1.349	.075	.064	1.187	.098	.054	.044
1.339	.075	.063	1.187	.089	.054	.035
1.329	.075	.062	1.187	.079	.053	.026
1.319	.075	.062	1.187	.070	.053	.017
1.309	.075	.062	1.187	.060	.052	.008
1.299	.075	.061	1.187	.051	.052	-.001
1.289	.075	.060	1.187	.041	.052	-.010
1.279	.075	.060	1.187	.032	.051	-.019
1.269	.075	.060	1.187	.022	.051	-.028
1.259	.075	.059	1.187	.013	.050	-.037

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GALLONS 20000

EXPENSES	MONTH	PER GAL	DAY	YEAR
RENT	0.00	0.000	0.00	0.00
ELECTRIC	350.00	.018	11.67	4200.00
WATER	75.00	.004	2.50	900.00
GAS	250.00	.012	8.33	3000.00
MAINT. B.	200.00	.010	6.67	2400.00
MAINT. V.	0.00	0.000	0.00	0.00
MAINT. W.	0.00	0.000	0.00	0.00
INSURANCE	150.00	.008	5.00	1800.00
M. INS.	180.00	.009	6.00	2160.00
SHORTAGE	100.00	.005	3.33	1200.00
PROF. S.	180.00	.009	6.00	2160.00
WASTE R.	35.00	.002	1.17	420.00
SUPPLIES	150.00	.008	5.00	1800.00
DAMAGE	0.00	0.000	0.00	0.00
LISCENSES	50.00	.002	1.67	600.00
TAXES	175.00	.009	5.83	2100.00
STA. VEH	150.00	.008	5.00	1800.00
TOOLS	0.00	0.000	0.00	0.00
INTEREST	75.00	.004	2.50	900.00
PAYROLL	2400.00	.120	80.00	28800.00
UNIFORMS	160.00	.008	5.33	1920.00
PHONE	75.00	.004	2.50	900.00
ADVERTI.	50.00	.002	1.67	600.00
TOTAL	4805.00	.240	160.17	57660.00

CONSERVATIVE EXPENSES NECESSARY TO MARKET GASOLINE EXCLUDING RENT,MAINTAINANCE AND CREDIT CARD FEE.

GALLONS 50000

EXPENSES	MONTH	PER GAL	DAY	YEAR
RENT	0.00	0.000	0.00	0.00
ELECTRIC	350.00	.007	11.67	4200.00
WATER	75.00	.002	2.50	900.00
GAS	250.00	.005	8.33	3000.00
MAINT. B.	200.00	.004	6.67	2400.00
MAINT. V.	0.00	0.000	0.00	0.00
MAINT. W.	0.00	0.000	0.00	0.00
INSURANCE	150.00	.003	5.00	1800.00
M. INS.	180.00	.004	6.00	2160.00
SHORTAGE	100.00	.002	3.33	1200.00
PROF. S.	180.00	.004	6.00	2160.00
WASTE R.	35.00	.001	1.17	420.00
SUPPLIES	150.00	.003	5.00	1800.00
DAMAGE	0.00	0.000	0.00	0.00
LISCENSES	50.00	.001	1.67	600.00
TAXES	175.00	.004	5.83	2100.00
STA. VEH	150.00	.003	5.00	1800.00
TOOLS	0.00	0.000	0.00	0.00
INTEREST	75.00	.002	2.50	900.00
PAYROLL	2400.00	.048	80.00	28800.00
UNIFORMS	160.00	.003	5.33	1920.00
PHONE	75.00	.002	2.50	900.00
ADVERTI.	50.00	.001	1.67	600.00
TOTAL	4805.00	.096	160.17	57660.00

CONSERVATIVE EXPENSES NECESSARY TO MARKET GA
EXCLUDING RENT,MAINTAINANCE AND CREDIT CARD

GALLONS	70000			
EXPENSES	MONTH	PER GAL	DAY	YEAR
RENT	0.00	0.000	0.00	0.00
ELECTRIC	350.00	.005	11.67	4200.00
WATER	75.00	.001	2.50	900.00
GAS	250.00	.004	8.33	3000.00
MAINT. B.	200.00	.003	6.67	2400.00
MAINT. V.	0.00	0.000	0.00	0.00
MAINT. W.	0.00	0.000	0.00	0.00
INSURANCE	150.00	.002	5.00	1800.00
M. INS.	180.00	.002	6.00	2160.00
SHORTAGE	100.00	.001	3.33	1200.00
PROF. S.	180.00	.002	6.00	2160.00
WASTE R.	35.00	.000	1.17	420.00
SUPPLIES	150.00	.002	5.00	1800.00
DAMAGE	0.00	0.000	0.00	0.00
LISCENSES	50.00	.001	1.67	600.00
TAXES	175.00	.002	5.83	2100.00
STA. VEH	150.00	.002	5.00	1800.00
TOOLS	0.00	0.000	0.00	0.00
INTEREST	75.00	.001	2.50	900.00
PAYROLL	2400.00	.034	80.00	28800.00
UNIFORMS	160.00	.002	5.33	1920.00
PHONE	75.00	.001	2.50	900.00
ADVERTI.	50.00	.001	1.67	600.00
TOTAL	4805.00	.069	160.17	57660.00

CONSERVATIVE EXPENSES NECESSARY TO MARKET GASOLINE EXCLUDING RENT, MAINTAINANCE AND CREDIT CARD FEE.

GALLONS	100000			
EXPENSES	MONTH	PER GAL	DAY	YEAR
RENT	0.00	0.000	0.00	0.00
ELECTRIC	350.00	.004	11.67	4200.00
WATER	75.00	.001	2.50	900.00
GAS	250.00	.002	8.33	3000.00
MAINT. B.	200.00	.002	6.67	2400.00
MAINT. V.	0.00	0.000	0.00	0.00
MAINT. W.	0.00	0.000	0.00	0.00
INSURANCE	150.00	.002	5.00	1800.00
M. INS.	180.00	.002	6.00	2160.00
SHORTAGE	100.00	.001	3.33	1200.00
PROF. S.	180.00	.002	6.00	2160.00
WASTE R.	35.00	.000	1.17	420.00
SUPPLIES	150.00	.002	5.00	1800.00
DAMAGE	0.00	0.000	0.00	0.00
LISCENSES	50.00	.000	1.67	600.00
TAXES	175.00	.002	5.83	2100.00
STA. VEH	150.00	.002	5.00	1800.00
TOOLS	0.00	0.000	0.00	0.00
INTEREST	75.00	.001	2.50	900.00
PAYROLL	2400.00	.024	80.00	28800.00
UNIFORMS	160.00	.002	5.33	1920.00
PHONE	75.00	.001	2.50	900.00
ADVERTI.	50.00	.000	1.67	600.00
TOTAL	4805.00	.048	160.17	57660.00

CONSERVATIVE EXPENSES NECESSARY TO MARKET GA
EXCLUDING RENT,MAINTAINANCE AND CREDIT CARD

COSTS OF DOING BUSINESS

TOTAL VOLUME	100000	AVG. G. $	1.40	T. GAS $	140000.00
		C.C. F. %	.04	C.C. %	.50
		C.C. SALE	70000.00	C.C. FEE	2800.00

AMOCO CONTROLLED

	1980	1982	INCREASE	% CHANGE	$ PER GAL
RENTAL PER MONTH	1759.00	3161.00	1402.00	.80	.032
MAINT. PROGRAM	50.00	200.00	150.00	3.00	.002
CREDIT CARD FEE	0.00	2800.00	2800.00	!!!!!!!!!	.028
TOTALS	1809.00	6161.00	4352.00	PER GAL.	.062

MONTHLY EXPENSES $	4805.00	PER GAL.	.074
TOTAL ABOVE 1982	6161.00	PER GAL.	.062
TOTAL	10966.00		.136

BEFORE DEALERS INCOME

DOES NOT INCLUDE FEES CHARGED ON SALES OTHER THAN GASOLINE

COSTS OF DOING BUSINESS

TOTAL VOLUME	90000	AVG. G. $	1.40	T. GAS $	126000.00
		C.C. F. %	.04	C.C. %	.50
		C.C. SALE	63000.00	C.C. FEE	2520.00

AMOCO CONTROLLED

	1980	1982	INCREASE	% CHANGE	$ PER GAL
RENTAL PER MONTH	1759.00	3161.00	1402.00	.80	.035
MAINT. PROGRAM	50.00	200.00	150.00	3.00	.002
CREDIT CARD FEE	0.00	2520.00	2520.00	!!!!!!!!!	.028
TOTALS	1809.00	5881.00	4072.00	PER GAL.	.065

MONTHLY EXPENSES *	4805.00	PER GAL.	.074
TOTAL ABOVE 1982	5881.00	PER GAL.	.065
TOTAL	10686.00		.139

BEFORE DEALERS INCOME

DOES NOT INCLUDE FEES CHARGED ON SALES OTHER THAN GASOLINE

COSTS OF DOING BUSINESS

TOTAL VOLUME	80000	AVG. G. $	1.40	T. GAS $	112000.00
		C.C. F. %	.04	C.C. %	.50
		C.C. SALE	56000.00	C.C. FEE	2240.00

AMOCO CONTROLLED

	1980	1982	INCREASE	% CHANGE	$ PER GAL
RENTAL PER MONTH	1759.00	3161.00	1402.00	.80	.040
MAINT. PROGRAM	50.00	200.00	150.00	3.00	.002
CREDIT CARD FEE	0.00	2240.00	2240.00	!!!!!!!!!	.028
TOTALS	1809.00	5601.00	3792.00	PER GAL.	.070

MONTHLY EXPENSES *	4805.00	PER GAL.	.074
TOTAL ABOVE 1982	5601.00	PER GAL.	.070
TOTAL	10406.00		.144

BEFORE DEALERS INCOME

DOES NOT INCLUDE FEES CHARGED ON SALES OTHER THAN GASOLINE

COSTS OF DOING BUSINESS

TOTAL VOLUME	70000	AVG. G. $	1.40	T. GAS $	98000.00
		C.C. F. %	.04	C.C. %	.50
		C.C. SALE	49000.00	C.C. FEE	1960.00

AMOCO CONTROLLED

	1980	1982	INCREASE	% CHANGE	$ PER GAL
RENTAL PER MONTH	1759.00	3161.00	1402.00	.80	.045
MAINT. PROGRAM	50.00	200.00	150.00	3.00	.003
CREDIT CARD FEE	0.00	1960.00	1960.00	!!!!!!!!!	.028
TOTALS	1809.00	5321.00	3512.00	PER GAL.	.076

MONTHLY EXPENSES $	4805.00	PER GAL.	.074
TOTAL ABOVE 1982	5321.00	PER GAL.	.076
TOTAL	10126.00		.150

BEFORE DEALERS INCOME

DOES NOT INCLUDE FEES CHARGED ON SALES OTHER THAN GASOLINE

COSTS OF DOING BUSINESS

TOTAL VOLUME	60000	AVG. G. $	1.40	T. GAS $	84000.00
		C.C. F. %	.04	C.C. %	.50
		C.C. SALE	42000.00	C.C. FEE	1680.00

AMOCO CONTROLLED

	1980	1982	INCREASE	% CHANGE	$ PER GAL
RENTAL PER MONTH	1759.00	3161.00	1402.00	.80	.053
MAINT. PROGRAM	50.00	200.00	150.00	3.00	.003
CREDIT CARD FEE	0.00	1680.00	1680.00	!!!!!!!!!	.028
TOTALS	1809.00	5041.00	3232.00	PER GAL.	.084

MONTHLY EXPENSES $	4805.00	PER GAL.	.074
TOTAL ABOVE 1982	5041.00	PER GAL.	.084
TOTAL	9846.00		.158

BEFORE DEALERS INCOME

DOES NOT INCLUDE FEES CHARGED ON SALES OTHER THAN GASOLINE

COSTS OF DOING BUSINESS

TOTAL VOLUME	50000	AVG. G. $	1.40	T. GAS $	70000.00
		C.C. F. %	.04	C.C. %	.50
		C.C. SALE	35000.00	C.C. FEE	1400.00

AMOCO CONTROLLED

	1980	1982	INCREASE	% CHANGE	$ PER GAL
RENTAL PER MONTH	1759.00	3161.00	1402.00	.80	.063
MAINT. PROGRAM	50.00	200.00	150.00	3.00	.004
CREDIT CARD FEE	0.00	1400.00	1400.00	!!!!!!!!!	.028
TOTALS	1809.00	4761.00	2952.00	PER GAL.	.095

MONTHLY EXPENSES *.	4805.00	PER GAL.	.074
TOTAL ABOVE 1982	4761.00	PER GAL.	.095
TOTAL	9566.00		.169

BEFORE DEALERS INCOME

DOES NOT INCLUDE FEES CHARGED ON SALES OTHER THAN GASOLINE

COSTS OF DOING BUSINESS

TOTAL VOLUME	40000	AVG. G. $	1.40	T. GAS $	56000.00
		C.C. F. %	.04	C.C. %	.50
		C.C. SALE	28000.00	C.C. FEE	1120.00

AMOCO CONTROLLED

	1980	1982	INCREASE	% CHANGE	$ PER GAL
RENTAL PER MONTH	1759.00	3161.00	1402.00	.80	.079
MAINT. PROGRAM	50.00	200.00	150.00	3.00	.005
CREDIT CARD FEE	0.00	1120.00	1120.00	!!!!!!!!!	.028
TOTALS	1809.00	4481.00	2672.00	PER GAL.	.112

MONTHLY EXPENSES *	4805.00	PER GAL.	.074
TOTAL ABOVE 1982	4481.00	PER GAL.	.112
TOTAL	9286.00		.186

BEFORE DEALERS INCOME

DOES NOT INCLUDE FEES CHARGED ON SALES OTHER THAN GASOLINE

COSTS OF DOING BUSINESS

TOTAL VOLUME	30000	AVG. G. $	1.40	T. GAS $	42000.00
		C.C. F. %	.04	C.C. %	.50
		C.C. SALE	21000.00	C.C. FEE	840.00

AMOCO CONTROLLED

	1980	1982	INCREASE	% CHANGE	$ PER GAL
RENTAL PER MONTH	1759.00	3161.00	1402.00	.80	.105
MAINT. PROGRAM	50.00	200.00	150.00	3.00	.007
CREDIT CARD FEE	0.00	840.00	840.00	!!!!!!!!!	.028
TOTALS	1809.00	4201.00	2392.00	PER GAL.	.140

MONTHLY EXPENSES *	4805.00	PER GAL.	.074
TOTAL ABOVE 1982	4201.00	PER GAL.	.140
TOTAL	9006.00		.214

BEFORE DEALERS INCOME

DOES NOT INCLUDE FEES CHARGED ON SALES OTHER THAN GASOLINE

COSTS OF DOING BUSINESS

TOTAL VOLUME	20000	AVG. G. $	1.40	T. GAS $	28000.00
		C.C. F. %	.04	C.C. %	.50
		C.C. SALE	14000.00	C.C. FEE	560.00

AMOCO CONTROLLED

	1980	1982	INCREASE	% CHANGE	$ PER GAL
RENTAL PER MONTH	1759.00	3161.00	1402.00	.80	.158
MAINT. PROGRAM	50.00	200.00	150.00	3.00	.010
CREDIT CARD FEE	0.00	560.00	560.00	!!!!!!!!!	.028
TOTALS	1809.00	3921.00	2112.00	PER GAL.	.196

MONTHLY EXPENSES *	4805.00	PER GAL.	.074
TOTAL ABOVE 1982	3921.00	PER GAL.	.196
TOTAL	8726.00		.270

BEFORE DEALERS INCOME

DOES NOT INCLUDE FEES CHARGED ON SALES OTHER THAN GASOLINE

GALLONAGE RENTAL PROGRAM

GAL. PURCHASED	RENT PER GAL.	RENT AMOUNT
100000	.021	2100.00
90000	.021	1890.00
80000	.021	1680.00
70000	.021	1470.00
60000	.021	1260.00
50000	.021	1050.00
40000	.021	840.00
30000	.021	630.00
20000	.021	420.00
10000	.021	210.00

Agreement between Atlantic Richfield and Vincent J. Luce, Jr., Summer, 1977 proposed by Bob Casper, Regional Representative.

Per: Conversation of Service Station to Mini Mart, 1200 N. Austin Blvd., Oak Park, Illinois.

After a survey by Atlantic Richfield had been taken in the Summer, 1977, the following was stated:

1. The Service Station at 1200 N. Austin Blvd., Oak Park, would be converted into an Arco Mini Mart with self service gasoline.

2. That the repair work was no longer a lucrative business but that Mini Marts were. (Stated by Arco)

3. The rent would be 10¢ of the Mini Mart Sales.

4. Operators could select their own hours, and receive a franchise.

5. Completion of construction would be 60 days.

6. Investment required was $10,000 to 12,000.

7. For the first 30 days to sell gasoline at a 1¢profit.

8. We would get our investment back after termination by either party.

The actuality of the fact is that construction took from October, 1977 to the end of January, 1978. Instead of selling gasoline for 30 days at a1¢ profit, we were pressured to do it for 90 days or lose our lease. This was demanded by the new Regional Manager, Dick Aron who replaced Bob Casper. When we complained that this wasn't our original agreement, he harrassed and pressed us further to go into a 24 hour operation. We flatly refused because we weren't making any money the way it was. After the 90 days at a 1¢ profit, we were then only allowed to make 2¢, which still didn't pay for the expenses. We contacted the bookkeeper and he recommended raising the pump prices like everyone else. When we tried doing this and being competitive with other stations, we got pressured to keeping the gas prices at the same low price and going into a 24 hour operation. Because this required additional investment, I again refused until I had no alternative in November, 1978. We had to take out a mortgage on our home in addition to the commercial loan, plus depleting our securities. It was still not profitable but was told I had to remain open 24 hours consuming all expenses.

During the Iranian Oil crisis and gasoline shortage in the summer of 1979, the Company maintained a low profile. But in October, 1979, I was told that I wouldn't meet my allocation and in order to do so I should purchase a double load of 15,000 gallons. I told my representative, Bill Crago, that my pumps were full. I didn't know where they would put a double load - I wasn't selling that much gasoline. He told me to leave it up to him and he would make all the arrangements. I wasn't there at the time, and much to my dismay, when the tanker came to make the delivery, because there wasn't enough room in the tanks, they went ahead and pumped regular in the premium tanks. Not only that, my employees informed me that they were giving out free gas until he unloaded the double delivery at my expense. In addition, an outfit by the name of Sibr from Chicago Ridge came and pumped out almost all of my regular and delivered it to some other station. When I got there, I was absolutely furious. It was bad enough to have pumped regular in the premium tanks but for someone to come along and pump it out for another station was something else. Because this delivery fulfilled my allocation, I couldn't get anymore gasoline for the rest of the month. When I tried to contact Bill Crago about this, I was told that he was out of town. On the Arco records, it looked like I sold the gasoline that was delivered, but I hadn't. It was taken out plus some of my other gas with it. I was stunned that a Company could force its dealers into such a situation. The action I took on this is on the following page.

Concerning the 10% rent, the Company also reneged on the original agreement. Beginning in January, 1979, I was charged without forwarning, $2,200 per month rent even though I was not selling $22,000 per month in the Mini Mart. I had to make up the balance out of my own pocket.

From the original agreement of a $10,000 to 12,000 investment, we sunk in over $46,000. Not only that, but the harrassment continued.

During July of 1979, I received a phone call at approximately 1:30 A.M. The caller said, " I'll get you out of that store yet." He then hung up. Since leaving the business in February 21, 1980, I received two phone calls. One in July, 1980 and the other In October, 1980. Both times the caller stated,"See, I told you I would get you out of that store." I wasn't so much concerned for myself as I was for my wife. She is handicapped and in a wheelchair. At this time, I am also not sure whether releasing information would or will cause harrassment to my wife. However, I feel some of these unorthodox practices by Oil Companies should be brought into the open plus certain discriminatory acts. There were and are occasions when some Arco Dealers are offered gas from truck drivers while others are not. When a delivery is made, some dealers are offered an additional 300 gallons for only $35.00. This is not offered to everyone. It is a cash deal paid to the drivers.

An unnamed bookkeeper at this time, who has worked and knows the practices by Arco stated that we not let this pass without pursuing a suit for misrepresentation and unlawful practices.

During the time when I was forced to sell gas at only at 1¢ margin, I called Bob Casper several times and asked his advice. He told me that if I needed to raise prices to meet expenses, I should do so. However, the Sales Representative and District Manager would not let me do it.

Regarding the allocation situation, I was appalled that the driver pumped regular into the premium tank. The Sales Representative informed me that it was his error and didn't know the storage capacity. This is ridiculous, the Company as well as the Representative knew what my storage capacity was.

I was so disturbed by all of this that I contacted IGDA. Carl at IGDA told me that it is an illegal practice for Oil Companies to take gas allocations from one dealer to another. This is precisely what happened to me.

In addition to calling IGDA, I called Bruce Johnson of Arco in Los Angeles for his advice. He said he never heard of such a thing and couldn't believe it. He advised me to call Mr. Fidler. My wife did but we received no satifaction. As a matter of fact, he stated to her that such a practice is often done. He promised however, to look into the situation but never called back.

In addition to the above, Atlantic Richfield should be taken to task for conflict of interest. Due to government regulations, the Mini Mart had to be offered first to the existing dealer. After he stocked and got things under way, they could use any practices to force him out for a subsidiary of theirs, Prestige. This is exactly what happened to me and what they have done in other Mini Marts. They have done this in 243 cases.

There is more to tell, but for the moment, I feel the above justifies an investigation and suit against the Company. Misrepresentation, harrassment, unlawful practices, and conflict of interests were unjustifiably waged against me along with discrimination.

The big hardship for us is that from a debt free situation in 1977 prior to the conversion into a Mini Mart, we now owe the First Bank of Oak Park over $36,000 and $11,000 to relatives. We obviously never anticipated such underhanded tactics by the new regime which replaced Bob Casper. Further, we wouldn't have gone into it without the promise of a yearly profit of $28,000. The fact of the matter is, we never made a cent of profit in two years.

May 21, 1982

Mr. Robert J. Jacobs
Executive Director
Illinois Gasoline Association
Box 692
Harrington, IL 60010

Dear Mr. Jacobs,

We were very happy to learn that the Gasoline Dealers association has filed a class action suit against Atlantic Richfield. Our experience with them was a nightmare for almost two years. We were one of those whose service station was converted into a Mini-Mart and in the process went through the most inconceivable practices one could imagine.

What was told to us prior to the conversion was changed shortly thereafter. The men who prepared the financial statistics on converting, left town. When we tried to reach them concerning our original agreement, we were told that they were transferred to another territory. Even the Regional Manager, Bob Casper, was changed. We were left holding the bag with no one to turn to who heretofore arranged the planning and procedure aspect.

We were specifically told that we could select our own hours, yet five months after our opening, the new regional manager began harassing us to be on a 24 hour basis. We finally relented which proved disastrous. He also dictated the price we were to sell the gasoline. The first three months of operation it was sold at cost, then for several thereafter, 1¢ to 1½¢ margin. When we discussed this with the bookkeeper, who incidentally was assigned by ARCO, he told us to raise our prices. However, the Regional Manager, Dick Arndt, wouldn't stand for it and eventually that bookkeeping service was cancelled by ARCO.

During one month, (we have the statistical data)in order to meet our allocation, the salesman told Vince to purchase a double load even though our pumps weredfft take it. He informed Vince that he would get a trucker to pump it out and send it to another station. When Vince questioned the ethics and legality, he was told that there was nothing illegal about it. When the salesman was questioned about the taxes, he said we wouldn't be charged for taxes because we weren't selling that load. What he didn't tell us, is that ARCO had us down for those sales in Pittsburg and when we closed, February, 1980, their records charged us with the order. This is another matter which we have Steve Krupnick working on.

The wrap up of this incident however, is that when ARCO delivered these loads, our pumps were so full that our employees told us that ARCO was giving away some of our gas free just to unload the tanker. Secondly, when the private trucker came to pump out the gas for the other station, he pumped out more than he should have, almost half a load more. As a result

we ran out of gas before the end of the month and also used up our oil station. When we tried to contact our salesman about this, we were told that he was out of town. Pittsburg couldn't deliver any more, so we were stuck for three days without gas. That wasn't all, we discovered that in order for ARCO to get the tanker unloaded, the driver pumped regular into our premium tank.

Finally, when we decided finally, when we decided to sell, we placed an ad in the Tribune. We had a meeting with the Company and informed them of our wished. The salesman was to interview the prospective buyers. What happened is that he interviewed no one. Instead, when the agreed time had come for us to vacate, they brought in Prestige Foods, a subsidiary of Atlantic Richfield, whom we later discovered had taken over almost every Mini Mart that was converted. We contend that Atlantic Richfield deliberately squeezed out the Mini Mart dealers in favor of their own subsidiary, Prestige Foods. ARCO should be taken to task for misrepresentation, price fixing, threats, monopoly of business, illegal practices and deception, falsifying information, and more.

We will be happy to furnish you or the representative attorneys with the particulars in our case.

Very truly yours,

Vincent J. Locke, Jr.

Charlotte A. Locke

BEFORE THE

HON. ALLEN DICKSON
UNITED STATES SENATOR (D)
STATE OF ILLINOIS

INFORMATIONAL HEARING
PETROLEUM MARKETING
DIRKSEN FEDERAL BUILDING
CHICAGO, IL.

OCTOBER 12, 1982

AN INTRODUCTION OF:

GENE W. STEWART, Standard of Indiana leasee dealer, and
VINCENT J. LACKE, JR., former ARCO dealer

BY

STANLEY A. RODMAN
Managing Director
ILLINOIS GASOLINE DEALERS ASSOCIATION
P.O. BOX 692
BARRINGTON, IL. 60010

SENATOR ALLEN:

We trust you come here in good faith and with an open mind. We are pleased that a person occupying as high and prestigious position as you do deems it in the best interest of the people of Illinois to hold this informational hearing on the petroleum marketing segment of the oil industry.

We will not attempt to inundate you with reams of statistics and figures. Although, many statistics on the industry have been compiled and we would like to have accepted in the record this most recent report from the Commonwealth of Pennsylvania. This report, entitled, "Gasoline Marketing: Trends and Choices" was compiled for Governor Richard Thornburg by members of the staff of the Governor's Energy Council. It took more than four months to compile and contains information, while specifically targeted to Pennsylvania, is nonetheless applicable to the State of Illinois.

We also believe that most of the conclusions drawn in this report are also applicable to the State of Illinois. For it is a fact that very little of what takes place in one section of this country of ours escapes those marketing petroleum in other sections of the country. You can be certain that, sooner or later, the repressive, economically brutal and arrogant marketing policies which play this week in Kalamazoo will soon appear in Kankakee.

What you are about to hear this morning is not a litany and verse of the problems of the industry as magnified by facts and figures. No sir. What you will be doing is hearing directly from two service station dealers who are the victims of the greed and price-squeezing policies of petroleum refiners and suppliers. Two people who are called small businessmen and who, against every conceivable odds, entered this industry after being enticed by major Chicago-area marketers.

Senator, the service station dealers of today are playing with a stacked deck of economic cards which, at every level, spells "bust."

This is an industry in trouble and we do not hold very much hope at this particular point that one man, conducting a three hour hearing, can do much to alleviate the problems all service station dealers are encountering in the marketplace.

But, your presence here this morning and your interest is encouraging. It's a reminder to us that the longest journey begins with but one step. . .and the biggest meal, with just one bite. We trust that the information compiled here today will reveal to you enough of the destructive marketing practices as perpetuated by major refiners and other key suppliers in the industry to cause you to continue in your pursuit of solutions which are just and fair to not only our service station dealers, but also the people of this great state.

May I now introduce two of the dealers who are appearing here before you this morning: Gene W. Stewart and Vincent J. Lacke, Jr.

Thank you.

OCTOBER 12, 1982

STATEMENT OF:

GENE STEWART, CO-OWNER
STEWART & CLAYTON'S STANDARD
101 S. Lincolnway
North Aurora, Il. 60542

BEFORE

HON. ALLEN DICKSON
UNITED STATES SENATOR (D)
STATE OF ILLINOIS

AT

INFORMATIONAL HEARING
ON PETROLEUM MARKETING
DIRKSEN FEDERAL BUILDING
CHICAGO, IL.

My name is Gene W. Stewart and I am the co-owner of Stewart & Clayton's Standard in North Aurora, Il.

My partner is my brother-in-law, Ray Clayton.

I have been in the service station industry since 1962.

I have also been a leasee dealer, in part or totally, for the past 10 years. I am also a long standing member of the Illinois Gasoline Dealers Association, an affiliation which affords me the opportunity of keeping abreast of industry changes as those changes affect my business.

Because I will feel more comfortable in making my remarks extemporaneously, the following is more of an outline on my thoughts about the industry than it is an actual recital of testimony. I believe, however, that this outline will suffice in rendering to the good Senator an overview of not only my operation, but also how the policies of the oil companies and oil jobbers adversely affect my ability to earn a fair and equitable living.

Each of the following is a statement of fact and/or opinion in which the Senator should be interested:

1) My brother-in-law and I presently operate two Standard Service Stations; until this past June, we had operated three.

2) Our first station was in Batavia at 206 E. Wilson; we still operate it and have since 1975. The station's number is 15083. Our initial rent was $575.00; we were pumping 50,000 gallons per month. Today, the rent on the station has nearly quadrupled; we pay $2038.00 per month. Our gallonage is in the 35,000 to 40,000 per month range. The station was initially in my name as the leasee dealer; my partner was added to the business in 1978 both because I needed additional assistance and financial backing.

3) In 1976, I was leased a second station by Standard. Its location is at Rt. 34 & 71 in Oswego, Il. I was induced into the operation of the station by the Company with a "sweetheart" lease which set the first three month's rent at $100.00 per month. During the following years, the rent was increased from the initial $300.00 per month in 1976 to more than $1400.00 per month in 1981-82. In addition, we also had to agree to bear the cost of station maintenance, a provision which was placed into the contract during the latter part of 1979. The addition of the station to my overall operation did allow me some flexibility in pro-rating my allocation of gasoline between the two facilities. But, the profit which I had been led to expect would materialize never did despite a high volume of gasoline moving through the pumps. When I took the station over, it was pumping 30,000 gallons monthly. We built the volume to more than 156,000 a month. But, at that point, other locations opened in competition with us and those locations--one operated by Pride Petroleum and the other by Marcley Oil--were jobber controlled and managed. They could and did sell gasoline for prices lower than I could purchase the product at tankwagon cost from Standard of Indiana. This obviously caused the volume to fall off dramatically. It went down to 30,000 a month last winter. We managed to again build it up to 60,000 at which time we sold it.

4) Our third location, station number 15506, is at Rt 31 & John St. in N. Aurora, Il. It is a full service facility and includes a car wash, the equipment of which I purchased from the previous operator. My total investment in that operation is more than $150,000.

5) During these past years, I have seen my business ravaged by the following:

A) Supplier-operated and jobber-operated locations price squeezing me to the point of no profitability; as 65 percent of my gasoline is through the self-service pumps in which we do not even recover our operating costs, my partner and I are at a tremendous competitive disadvantage if we do not compete with their posted prices;

B) Price coercion by my major supplier; we are continually told the price we should be charging for our product by company sales representatives who care little for the fact that the prices they "suggest" are at a level of being nothing more than a loss leader. The company calculates that tankwagon plus taxes should be our "breakeven" mark;

C) The addition within the lease contract of provisions which are extremely costly and greatly erode profitability. These provisions cover: Station maintenance, Credit Card surcharges, and Image Programs;

D) Escalating rent for the property which has no bearing to the value of the property or the ability of the leasee dealer to realistically meet those financial terms. In all cases, the rent on my stations have risen dramatically and now approximates three to four times more money per month than was initially called for only four to five years ago;

E) Continuous pattern of harassment on the part of the Company if TBA (tires, batteries and accessory) products which they sell or endorse are not used. This pressure oftentimes leads us into making decisions on purchasing product which are not in our best interest but which greatly benefit the Company.

6) During the course of the past two years, we have been to the bank four times to obtain loans so as to allow us to continue to operate. If it were not for the fact that, with the help of IGDA, we debranded our pumps and secured product on the open market for 3-4¢ per gallon less, I and my brother-in-law would not be in business today. During the three months in which we were debranded--advising customers that our product wasn't necessarily Standard gasoline--we sold more than 450,000 gallons totally at the higher margins. This action, as temporary as it was and taking place only during January, February and March of 1982, allowed us to realize sufficient profit to remain in operation.

7) At stake in our operation, besides the welfare of more than a dozen employees, is the future of our respective families. My two brothers-in-law both have their homes collaterialized against notes we have taken at the bank. My home is also on the line.

8) Unless the government acts to bring forth legislative remedies to correct the abuses which dealers are presently undergoing, there will be no full service stations, of which to speak, in the very near future. I and my partner are not the only two people in this situation. The tale we tell today can be told over and over and over by small businessmen who mortgaged their most cherished possessions on the promises of major oil refiners and their marketing minstrals who sing a song of success, but who embellish their performance in the marketplace with deception and lies, breaking our every hope and dashing our every dream.

Senator, this is a rough business and an unfair business. And I have the records, both of the hours I have worked and the money I have lost, to prove it. Thank you for hearing me this morning.

Senator DIXON. Ladies and gentlemen, we have two representatives of major oil companies here. I am informed that every one of the major oil companies was advised of the hearing and invited to send representatives. Apparently two have done so, and each is here in the individual capacity of himself and his own company. They will be heard separately, and then we will question them about the matters that have been brought to the attention of the committee.

Mr. Robert Rauscher, regional vice president, Midwest Region, Amoco Oil Co., Chicago, is here; Mr. James D. Kowal, manager, C&D Sales, Atlantic Richfield Co., Los Angeles, Calif.; and it appears there is a third.

Mr. FITZMAURICE. I am a ringer, Senator. I am Gene FitzMaurice from Arco's Philadelphia office. May I sit here?

Senator DIXON. Absolutely, you may. You are invited to be heard, if you care to, sir.

Mr. FITZMAURICE. I will try to be quiet.

Senator DIXON. Do you want your name in the record?

Mr. FITZMAURICE. Yes, sir, if I could.

Senator DIXON. Would you give us your name and address, and so forth?

Mr. FITZMAURICE. I believe your counsel has that, Senator.

Senator DIXON. Mr. Eugene M. FitzMaurice, counsel for Atlantic Richfield Co., legal division, 1500 Market Street, Philadelphia, Pa. 19101.

Mr. Rauscher, would you please feel free to proceed at this time?

STATEMENT OF ROBERT J. RAUSCHER, REGIONAL VICE PRESIDENT, MIDWEST REGION, AMOCO OIL CO., CHICAGO, ILL.

Mr. RAUSCHER. Thank you, Mr. Chairman.

I have a very brief statement that I would like to read, and then we will deal with questions that you have on your mind.

I would like to briefly describe what Amoco sees as the present condition of petroleum marketing and then talk for a minute about

the steps we have taken in attempting to serve our customers and operate profitably in a highly competitive market.

We can begin with the fact that the oil industry is facing a declining demand. This represents a real challenge for many companies involved, because our long-term historical pattern has been one of growth in good years and bad. Moreover, the impact of today's decline is, without a doubt, worse than it would have been had the industry not been under controls for the greater part of the last 10 years.

Those controls kept many consumers and many of us in the oil business from seeing the full impact of years of escalating prices. They discouraged conservation and prevented the industry from making gradual changes to keep up with the times.

Even without the history of controls however, there are other factors in today's problems. The recession is unquestionably the largest. But there also have been laws mandating smaller and more efficient cars. There have been tax and regulatory policies that have shrunk the home heating oil market. And there is a growing consumer energy awareness that has forced many changes in the ways customers want to be served. All this reduces demand for our chief products.

In hard terms—and they are very hard if you are in the business of selling petroleum products—total oil demand has dropped 18.1 percent since 1978. Gasoline demand and fuel oil have dropped 13.9 percent and 20.1 percent respectively in the same period.

According to the American Petroleum Institute, 54 refineries have closed completely, and another 22 have partially shutdown. Although we believe this number actually understates the total shutdown refining capacity, we expect that still more excess and marginal capacity will close down in the future as the industry adjusts to lower demands for its products.

When we consider the impact of the declining market in total product volumes and total refinery closings, it is not surprising that individual marketers see that decline reflected in their own operations.

That is not to say that all marketers have been evenly hit. Major companies have been particularly hurt as customers have become more price conscious. Independents, on the other hand, have increased their total market share from 22.8 percent in 1975 to 32.5 percent today.

In spite of such trends, Amoco believes there is a role for branded marketing. Accordingly, we have made the consolidation required by a smaller market. We have closed 3 of our 10 U.S. refineries. We have shrunk our marketing regions from 5 to 3 and our district offices from 26 to 18. We have withdrawn marketing operations from 11 States. We took a look at our different lines of business and decided to sell off the fertilizer lines which were not performing satisfactorily and did not show any signs of being able to change.

One thing I want to stress is that with all this reevaluating, we have consistently stayed with the concept of our basic dealer and jobber marketing in wholesale and resale channels. This means that Amoco is committed to the network of independent business people who distribute our products in our 33-State marketing area.

It is important for you to note that Amoco changed its method of serving rural areas and small towns from an employee commission agent organization to an independent jobber organization in the Midwest just 7 years ago.

We believe the major reason that we have had such success in marketing this way is because we are a pro-dealer and pro-jobber company. The highest levels of Amoco management are accessible to our dealers through their freely elected dealer advisory council.

In addition to ongoing contacts, the council meets annually at our headquarters for face-to-face sessions with Amoco management. We have similar programs for keeping in touch with jobber concerns. We have these contacts throughout our regional operations as well as general operations.

These are not token programs. They are a real channel of two-way communication in the company, and we are very proud of it.

For some years now we have kept track of the preferences of consumers through marketing research programs. We have observed that the fastest growing segment of customers is oriented more to convenience, to fast fill-ups, to low prices and away from the amenities traditionally offered by major companies at full service stations.

Although we intend to retain all the amenities that our branded customers want, we also are going after the business of the nontraditional Amoco customer. To do so, we are changing the ratio of our service station mix to include more self-serve and pumper stations. For customers who prefer them, we also are retaining a majority of the conventional stations and upgrading car care and mechanic certification programs.

Along the same lines, we are now offering a dual cash/credit price to customers, our discount for cash program. Again, the idea was to attract the cash customer while still offering credit to those customers who want it.

That was a big decision for us. We have one of the largest and most loyal bases of traditional credit card customers in the industry. The card is familiar to and accepted by those customers and our dealers and jobbers. In marketing you just do not change a familiar and successful factor without full consideration.

But we have taken this approach: The customer tells us what he or she wants and what they do not want. They vote with their dollars every time they drive across a service station driveway, and they get their way.

For example, some time back, many segments of the industry resisted the concept of self-serve gasoline sales. Many companies and many dealers did not feel that was consistent with the idea of a service station. But today 65 percent of all gasoline is sold through self-serve pumps, and many of the newest gasoline stations are designed to appeal exclusively to the self-serve customer.

Similarly, our discount for cash program is aimed at the fast growing segment of customers who want lower prices and pay cash. It is our way of signaling those customers that we want their business, and we are willing to make the changes it takes to get it. Even in a shrinking market we believe there is a place, and a profitable place, for any company willing to look at consumer trends and then adjust its operations to compete for that business.

The other side of the coin is this: Some segments of the industry refuse to face the facts of declining demand. These segments apparently think that it is OK for others to close down facilities or withdraw from markets that cannot be profitably served, or consolidate internally, but that they should expect to continue operations just like in the old days when demand grew every year.

We have said to our jobbers and dealers just what I have told you this morning: "Future survival will depend on making your operation as efficient as it can be. You will have to make the hard decisions inside your operations that we have been making inside ours. But most importantly, you will have to signal the customer that you have the combination of prices, goods, and services that he wants."

Thankfully, many of our jobbers and dealers did not wait for us to see the light. Many of them began doing these same things some years ago. Those business people are in the marketplace today because they made tough decisions a long time ago. And they will be in the marketplace tomorrow because they are continuing to make such decisions now.

What I have been describing this morning is a marketplace that is in no way anticompetitive. It is in fact one of the most competitive marketing environments that can be found in American business today. As I mentioned at the outset, many of the changes going on have been more dramatic and sudden than they would have if we had not been under rigid controls for a long time. But the industry is going where it would have been going in any case, and that is just where the customer wants it to go.

There are painful adjustments that have been made and more that will be. Certainly the kind of consolidation that I have described at Amoco has not always been easy or pleasant, but we believe that the customer and ultimately the company is better off because of those changes and the many similar changes taking place throughout the industry.

Thank you for this opportunity to provide this perspective to the changes in our industry. I would be happy to answer any questions the committee may have.

Senator DIXON. Thank you very much, Mr. Rauscher.

If you will indulge me, I will hear Mr. Kowal, and then I will talk to both of you a little while.

Would you give me your address, Mr. Kowal?

Mr. KOWAL. It is in the upper right-hand corner, Senator—515 South Flower Street, Los Angeles, Calif.—my card is with your committee counsel.

Senator DIXON. Thank you.

STATEMENT OF JAMES D. KOWAL, MANAGER, COMMERCIAL AND DISTRIBUTOR SALES, ARCO PETROLEUM PRODUCTS, LOS ANGELES, CALIF., ACCOMPANIED BY EUGENE M. FITZMAURICE, COUNSEL

Mr. KOWAL. Senator, with your permission, I will waive reading the statement. Copies have been made available to the committee and the reporter, and there are still some left on the table—if you would like to proceed to questions.

Senator DIXON. Fine. I appreciate that indulgence.

Mr. KOWAL. Senator, one indulgence, if you will.

Senator DIXON. Surely.

Mr. KOWAL. I am not able to respond as carefully as I would like to to a story by Mr. Lacke in the prior panel. With your permission, I would like to respond to his allegations with respect to his 1977 experience here in Illinois for the record and do that promptly by communicating with the counsel.

Senator DIXON. You certainly may do that. Without objection, your full response will be included in the record at this point.

[Subsequent information was received and follows:]

INFORMATION SUPPLIED BY ARCO PETROLEUM PRODUCTS COMPANY RETAIL SALES DIVISION IN RESPONSE TO THE TESTIMONY OF VINCENT J. LACKE, JR.

Mr. Lacke testified at Senator Dixon's hearing on October 11, 1982, that he had been forced to give up the service station located at 1200 N. Austin Boulevard, Oak Park, Illinois, as a result of demands by Atlantic Richfield Company that he pay additional sums to convert the premises to an am/pm mini market. Senator Dixon courteously permitted the company 30 days in which to examine its files and prepare this response.

Mr. Lacke was not required to convert his facility or pay additional funds for a market. He operated a conventional facility for approximately ten years before being offered a conversion to a mini market. The conversion took place in 1977 and simultaneously the Lacke family began to experience significant personal financial obligations unconnected to the service station. These obligations continued during the remaining three years Mr. Lacke was a dealer.

In late 1979 and early 1980, ARCO offered to its mini market dealers, like Mr. Lacke, the opportunity to become am/pm franchisees. This involved certain significant changes to existing mini markets as well as participation in a new franchise system. The fee for purchasing such a franchise was $10,000. In all cases where a dealer was already a mini market operator, as Mr. Lacke was, this fee was waived. There was no attempt to obtain further payment from Mr. Lacke. Shortly thereafter, Mr. Lacke chose to leave the facility. When he did so, Atlantic Richfield paid him for all of the inventory which he had at the store, both food and petroleum products, and paid him $10,000.

ARCO believes that the substantial financial burdens incurred by the Lacke family, unrelated to the facility, contributed to his inability to successfully operate the business. ARCO attempted to assist him at the time he left the facility by making the payments which have been enumerated.

If the Committee requires any other information, Atlantic Richfield will respond promptly.

Senator DIXON. Let me take this opportunity at this point to suggest to this room full of spectators that this is a hearing called by the chairman of the Small Business Committee of the U.S. Senate, Hon. Lowell Weicker of Connecticut. For any of you that care, at any time within the next 30 days or so, you may communicate either to Hon. Lowell Weicker, U.S. Senator, Russell Building, Washington, D.C. 20510, or to myself, Alan Dixon, U.S. Senator, Dirksen Building, Washington, D.C. 20510. I give you my personal assurance that your statement will be fully reproduced in the record.

If I could go ahead then, Mr. Kowal——

Mr. KOWAL. Please.

Senator DIXON. The first thing that leaped out at me, Mr. Rauscher, in connection with your statement is this statement: "One thing I want to stress is that with all this reevaluating, we have consistently stayed with the concept of our basic dealer and jobber marketing in wholesale and resale channels." And you stand behind that statement.

Would that be a general position of you as well, Mr. Kowal?

Mr. KOWAL. Yes, sir.

Senator DIXON. Because surely as spectators to this proceeding, you have heard the expressed views sometimes, and other times the clearly implied view, that what you are really trying to do is to get into business for yourself.

The suggestion here is that the major oil companies want to have it all the way out of the ground into the tank. Would you not say that is implied in everything that has been said here?

Mr. RAUSCHER. I heard that implication this morning.

Senator DIXON. And then I suppose—if I may pursue that, Mr. Rauscher—the further suggestion from that is that when the big majors have this that way, all the way to the consumer, that if you think prices are high now, what will they be then? Would you not say that that is a fair implication of everything that has taken place here today?

Mr. KOWAL. Yes, sir.

Senator DIXON. I would like to have you address that, Mr. Rauscher?

Mr. RAUSCHER. I am particularly glad I came, because I would like to address that situation. We are not interested in controlling the marketplace. We have demonstrated over time that we operate most successfully through branded lessee dealers and that our jobber organization is also a very successful way for us to operate. We are not good at company operation, if you will; we have very, very few company operations within our entire system, mostly turning toll road and temporary type locations.

Our long-range outlook is that we will continue to operate through branded lessee dealers and jobbers.

Senator DIXON. May I say this: I cannot speak for everybody on the committee, but I can speak for this Senator in suggesting that what we do not really need in this country is a lot more laws getting business all involved and a lot more governmental regulations. What we need is a free marketplace that works well.

I would hope that this hearing might be productive in the sense that there would be an opening understanding between what I per-

ceive to be a three-tiered operation in this country in this business—and I do not suggest that I understand much about it, but I do think that I understand that there is some lack of understanding at various levels about what the other fellow wants to do.

First of all, let us talk about the jobber. The dealer's view is different than the jobber's; I think we have seen that.

Mr. RAUSCHER. Yes.

Senator DIXON. But the jobber is saying, among other things, that I think distresses him the most is this: "What the heck. Sometimes I am paying more for it than the guy I want to sell it to." I would have to say that will not work economically, if you really believe in the three-tiered system. I wonder what your response, separately, would be to that charge.

Mr. RAUSCHER. I am happy to hear your position on the fact that I do not think we need more legislation to run our business properly. I think understanding between ourselves and our dealers and jobbers is paramount and important to that.

I think that perhaps some testimony as to the rigors of the marketplace right now has contributed to some of the understanding difficulties that we are encountering.

Senator DIXON. What do you say, though, to the jobber who testified here a moment ago—and I do not have the testimony right in front of me, but it is in the record. He was paying 2 cents more for it than a dealer was selling it for?

Mr. RAUSCHER. I do not think that is accurate in the case of one of our jobbers or one of our dealers. I do not know where he would be paying more than one of our dealers.

Senator DIXON. But you are testifying here that, in your view, your company does not engage in a practice of selling, for instance, to one of your company-owned stations for less than you would sell the product to the jobber.

Mr. RAUSCHER. That is correct.

Senator DIXON. You are saying to us that that is not a practice of your firm.

Mr. RAUSCHER. That is right. We have no more than a handful of our company-operated service stations; we have almost none.

Senator DIXON. Mr. Kowal, could I ask you that same question?

Mr. KOWAL. I think that in some circumstances that could happen.

Senator DIXON. Would you not say, if you believe in a three-tiered system, taking into account the vagaries of the marketplace sometimes affecting what occurs, but as a general rule would you not say that. if you are going to have a three-tiered system, you cannot be selling it to the company store for less than you are selling it to the jobber, unless you want to put the jobber out of business and the competition out of business?

Mr. KOWAL. Your phrase about the company store I do not recognize as a separate tier. We have dealers. Some of those stations are run by Arco employees, but their price is exactly the same as any other dealer would pay for that product. We are talking maybe 400 service stations out of over 7,000 being in that category, but there are 4,000 more just like the company stations that all pay the same price. We have 1,100 pricing zones in the United States for dealers, and we have 70 terminal pricing areas for distributors. It is possi-

ble that a dealer in a price zone against 15 other dealers in that price zone might pay a lower price on a particular day for a particular load than a distributor that is in the same State, maybe in the same standard metropolitan statistical district, who is buying at a terminal, and our price to him is a function of making him competitive against all of his branded distributor competitors from other oil companies, unless he is unbranded, in which case we make him competitive against unbranded resellers supplied by other oil companies, just like we make our dealers competitive against their competition.

Senator DIXON. I understand the obvious need to keep competitive. Frankly, except for those that are really devoted to their brand name—and the average one of us would probably feel in our society that given a difference in price, either gasoline will run the automobile. I am sure you would take issue with that as brand name companies, but the point is this: I see the necessity of the competitive nature of your industry; nobody would quarrel with that—that you have got to match their price if you want to sell the product.

But it would seem to me that if you really believe that you consistently stay with the concept of a basic dealer and jobber market in wholesale and retail channels, you probably ought to have a distinction between what a jobber pays for it and a dealer pays for it in a given area, or ultimately you cannot have the second tier. Does that make sense to you? It seems simplistic enough.

Mr. KOWAL. Senator, our distributors are taking all the gasoline they can—that is made available to them. I assume from their continued appetite that they are doing very well with it somewhere. Of course that is none of our business, unless they bring it in to one of our retail zones.

When a distributor comes into a retail zone where there is a voluntary allowance in place, he gets that also. So he left the terminal competitive as against his world, and if he comes into one of our retail zones with his branded product, and we are giving the dealer support, he gets it. So within that zone he is on parity because he bought 1.7 cents cheaper when he left the terminal. He gets the delivery function; he gets a functional allowance. So he has left the terminal 1.7 below the dealer.

If we are giving a dealer 4 cents out here in a particular community and he has got a station there, he gets 4 more cents when he gets there, but if he is going in the other direction from the terminal and we have got 4 cents out of this little suburb where there is a battle going on, those dealers are literally buying 2 cents cheaper than he is that day, but he is not out there; if he was, he would be treated the same.

Senator DIXON. I appreciate everything you are saying. Believe it or not, I even understand most of it, but what I am trying to say here is simply this: If I could keep this as simple as I want it to be for all of us who do not understand it as well as you folks do—and it is your business; I understand that. I am only trying to suggest that there may be a lot of different things that are issues here, but simplistically, if we are going to have jobbers and dealers, it would seem to me that, in general, forgetting about the vagaries of the marketplace from time to time and the impact of decisionmaking

processes on the need for competition in a specific area—you understand all of that?

Mr. KOWAL. Yes.

Senator DIXON. In general, in a given area, the jobber's price ought to be a little less than the dealer's if you are going to keep jobbers.

Mr. RAUSCHER. We believe that jobbers should have a functional differential for what they perform.

Senator DIXON. That is all I am saying, and that is probably one of the most simplistic things that was discussed here that I imagine all of us can relate to.

There may very well be an argument among some as to whether there ought to be jobbers; I think I got that from others among the dealers. At least we have pursued that to a successful conclusion.

The second thing I wanted to suggest is this: As a lawyer, it always bothers me when the littler guy comes in here—and I do not want to be picking on a big guy; you are entitled to make a good living just like the little guy. What I am trying to say is this: It always bothers me as a lawyer when a little guy comes in here and says, "You know, I did business with the big guy, and the contract came up at the last minute, and I didn't get it until later," and the implication is, "I didn't even understand it," and things of that kind.

I want to address this contractual relationship. We will get to the dealers in a moment. I do not want the dealers to think I have forgotten about them. From the standpoint of the jobbers I wanted to discuss the contractual relationship that you have with the jobbers.

Let us take Chuck Keller. By my standards he is not a little guy; I knew him in the legislature; he has a substantial business in Effingham, other businesses as well as his Shell distributorship or jobber business—whatever you would call it in the industry.

Surely with respect to Shell there is a size difference between Chuck Keller and Shell. All I am trying to get is: What is your response to their charge that they do not get a fair shake on doing business with you contractually?

Mr. RAUSCHER. That bothers me also. There is no reason why a jobber would not receive a contract back prior to the initiation date of it, in my understanding.

It is important to bear in mind that we consider that as one instance though. Obviously, the contract was signed, read, reviewed, and accepted before the effective date. For some reason we did not return it after execution apparently. That would be an extraordinary circumstance, I would think. Even in that case it was only 30 days. Normally it should be done beforehand; there is no reason not to.

I think the thing to bear in mind is that our contracts with jobbers are of 3 years' duration, and many of these customers have been doing business with us ever since they converted from agent's business. We have no basis to do anything other than do it up front.

Senator DIXON. I appreciate that.

The Keller example would be a good one. I knew his father as well. He was at one time mayor of Effingham, and I guess they

have been in that business historically about as long as the business has been around that part of the world.

What I was going to suggest respectfully to you and other representatives of the majors that are in this room is that from a public relations standpoint it would probably be very comfortable for you and the jobber to know in advance of the time that the contract is going to come up again that, "Look, it is time that we begin to reevaluate this contract." If it were only a letter saying:

Hey, 3 months from now this whole thing comes up again, and we ought to be talking about it a little bit. You are the person we are dealing with. Maybe you ought to get hold of the company.

Mr. RAUSCHER. That is a fair comment. I think I will have to go back—and I will—and review our system. But I believe those documents are communicated within about 90–180 days before, but I will make certain, because it is a very obvious situation that can be easily handled. That is not a problem.

Senator DIXON. Would you say that with respect to the industry generally, the relationship in the contractual negotiations that you do with the jobber are really in fact a bilateral situation where each of you plays a significant part?

Sometimes I think they have suggested here or at least implied that it is pretty unilateral. You say, "Here's the contract; take it or leave it."

Mr. RAUSCHER. I can only talk about our company. Obviously this is very bilateral for a number of reasons. As some of the jobbers testified here this morning, they not only have a contract with us, they have elected to make one with someone else.

We found also that we have competitive jobbers who desire to become Amoco jobbers. On the basis of discussing with us our marketing practices, outlooks, and attitudes, they decide to become an Amoco-branded jobber. I do not think there is any question that it is a bilateral, mutual situation, because, as in any business situation, it has got to be good for both of us, or it will not work out in very good fashion at all, because the jobber will elect to go do business with somebody else.

Senator DIXON. Mr. Kowal, I would be delighted to hear your point of view on that.

Mr. KOWAL. I have to bifurcate my answer. With respect to gasoline, we are not negotiating new contracts. Our marketing success has been such that since April 1, 1982, we have not sold 1 gallon of gasoline in the United States to anybody except our preexisting customers—no discretionary sales, no new contracts with anybody.

However, we also sell a couple of billion dollars in No. 2 distillates such as heating fuel, almost all of which goes to the jobber class of trade. Almost 97 percent of everything Atlantic Richfield makes goes to an independent third party before it reaches the ultimate consumer or user.

In the distillate field our contracts are not negotiable in terms of their basic content vis-a-vis credit terms, trademark provisions, default measurement periods, simply because we are typically going to sell to you at a terminal where we already have five others like you on the same contract.

Our attorney, Mr. FitzMaurice, I am sure, could explain better than I that there is a Robinson-Patman problem if I give you different credit terms or different payment terms or greater license with my trademarks than your competitor at the same terminal.

But whether you do business with me at all or not, what terminals you like to buy from me at, how much volume you want—all of these things are what we discuss. You decide whether you want to do business with me or not on those terms, and having stepped up to the line and signed that contract, my obligation is to get it to you at the time and place and under the conditions and quality provisions that we have agreed to. If you take it, it is a happy relationship. If you do not take it, I am going to default you or nonrenew you and go find somebody else who will take what they say they are going to take.

My strategy is to deal with people who live up to their contract. We are an industry that, to the best of my knowledge, has never had a customer sued for breach of contract.

There are many options, so from our point of view, take the shot; if you do not buy, thank you very much; I will do business with somebody else who will take what he says he will, so that I do not have a 1-dollar-a-gallon product sitting in a terminal that I am paying interest on and you did not pay, and I have to move it or find somebody else to take it.

Senator DIXON. OK. Let me pursue this last thing from the jobber's standpoint. Then I want to move along to the dealers, in the interest of time.

There has been a lot of discussion here about the credit card question, and nobody needs to elaborate upon the growing use of credit cards.

I was a kid in a bank years ago when the credit card business began, and I remember an old gentleman from my home town of Belleville, who was a businessman, who said, "We will never make any money on these things." Now everybody carries them like cash, and we all know that it is a growing usage in the country. Credit cards are here with us, and they are here with us to stay.

There has been a lot of discussion about credit cards here and the discount for the payment of cash. I would like to hear the attitude of the majors on that. For instance, the jobbers have suggested—if I understand their testimony correctly, and you heard it as well as I did—that in their view they bear a disproportionate percentage of the assumption of the discount for cash. I think the dealers feel, too, that they are not being treated right in this.

But just generally, what is your position on the discount for the use of cash?

Mr. RAUSCHER. As I said earlier, our market research shows there is a growing segment of people who want to buy for cash. As we looked down the road, we decided that was a segment of the population that we needed to appeal to. Our credit card is important to us. We do not want to lose our credit card customers; we want to retain them. We are saying we would like to broaden our sights and also appeal to a greater segment of the market.

The difference between the dealer discount and the jobber discount is indicated by the fact that we have a much higher percent-

age of credit card business in our dealer channel than we do in our jobber channel.

Our jobbers are involved in consumer type business, farm type business, in their gasoline business, in addition to the amount of business that would normally contribute credit card sales. We arrived at it with a common methodology.

When we looked at the 4-percent fee that we established, it took 2.8 cents to offset that fee in the dealer channel. The 2.8-cents-per-gallon discount that we gave our dealers was equal to the 4-percent credit card fee. In the jobber channel due to the different profile and percentage of credit card business, that 4-percent fee was offset then by an eight-tenths-of-a-cent-per-gallon reduction. That is strictly because of the profile and type of business that most of our jobbers are involved in. In fact, about over 80 percent of our jobbers actually did better under the eight-tenths.

We have certain jobbers who have a much higher percentage of credit card fees, and I think this is where the comment came from that you dealt with here this morning. But it was not an effort, and is in no way an effort, to discriminate, if you will, against the dealer in favor of the jobber or the jobber in favor of the dealer. It was like methodologies and differences in the percentage and ratio of our credit card business.

Senator DIXON. I wonder if it is possible for your company to send to this committee—I do not want to pry into your business secrets—a basic breakdown on how you arrived at that rationale—the methodology.

Mr. RAUSCHER. The methodology, you want?

Senator DIXON. I would greatly appreciate that being a matter of this record.

Mr. RAUSCHER. We would be happy to provide it.

Senator DIXON. Without objection, it will be included in the record at this point.

[Subsequent information was received and follows:]

Standard Oil Division
Amoco Oil Company
Midwest Region
P.O. Box 428
Oak Brook, Illinois 60521

R. J. Rauscher
Regional Vice President

October 29, 1982

The Honorable Alan J. Dixon
United States Senate
Committee on Small Business
424 Russell Senate Office Bldg.
Washington, D.C. 20510

Dear Senator Dixon:

On behalf of Amoco Oil, I appreciated the opportunity to participate in your Committee on Small Business hearing in Chicago on October 12, 1982. We believe your open forum approach gave all parties equal opportunity to present their views on the current petroleum marketing climate in Illinois. Your questions were pertinent, and your summarization of each group's testimony demonstrated an understanding of the complexities involved in the situation.

Following our testimony, you requested we provide more specific information concerning the methodology of our Discount for Cash program. We believe the following explanation will provide the requested details.

Amoco's program provides for a credit card processing fee, which is charged to our dealers and jobbers on all credit card sales. This charge represents Amoco's net credit card costs, expressed as a percentage of the retail price of all gallons sold on credit. The program also provides a discount from posted gasoline prices on all gallons sold through our reseller (dealer) and jobber channels, as an incentive to offer cash discounts at the retail level. These discounts are determined by dividing the amounts generated by the credit card processing fee by total gasoline sales in respective reseller and jobber channels. The amount of the discount applicable to dealers and jobbers is not the same, due to a difference in credit card usage through each sales channel.

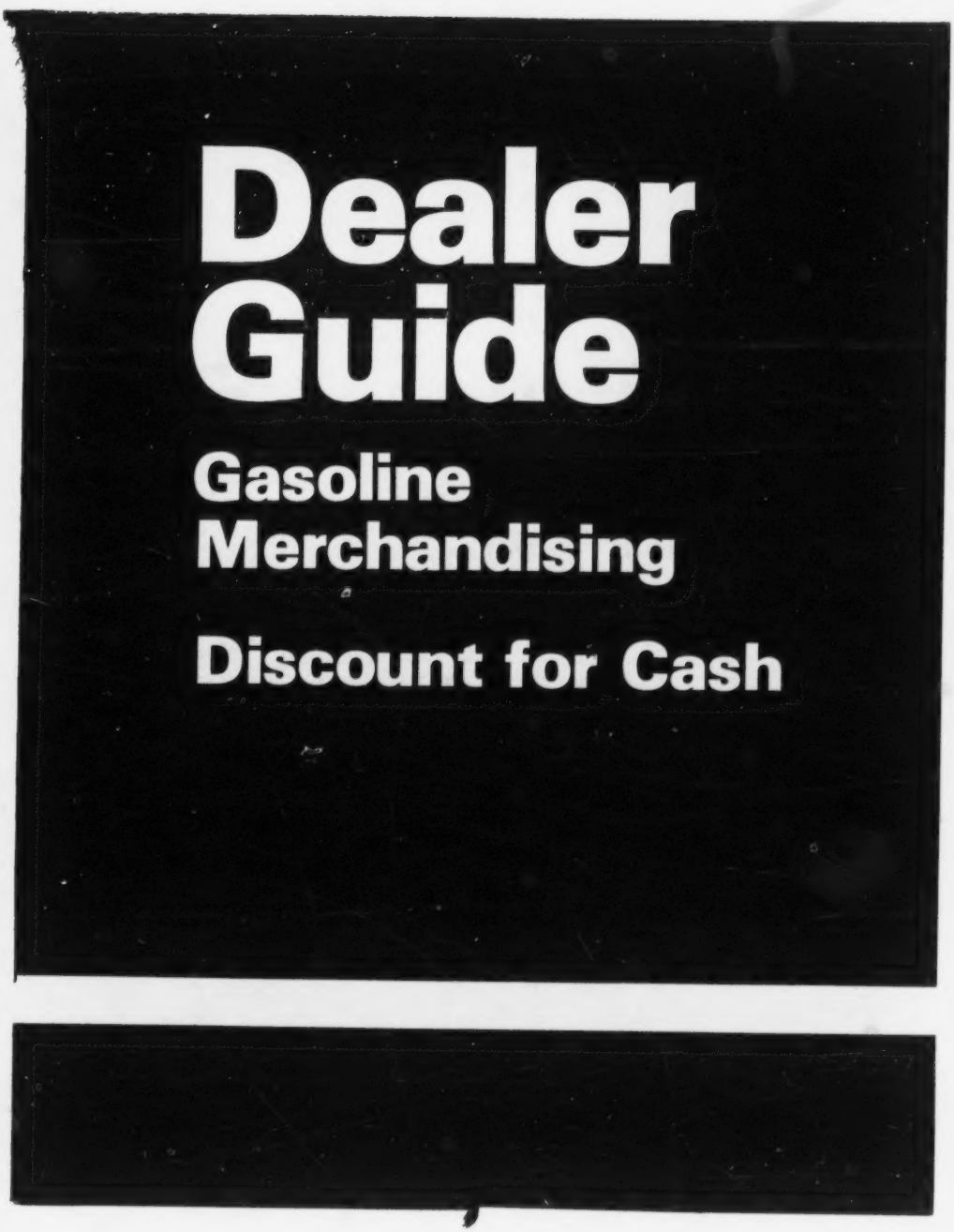
For your additional information, I also have enclosed a copy of a booklet which was a key element in introducing the program to our dealers and jobbers. It provides information relevant to many of the questions raised during the hearing.

I hope the above will fulfill your request. If not, or should other questions require further explanation, do not hesitate to contact me. We concur with your thought that open communications are in the best interest of all parties and we are pleased with your efforts to develop a better understanding of petroleum marketing in Illinois and the nation.

Sincerely,

R. J. Rauscher
Regional Vice President

Enclosure


Dealer
Guide
Gasoline
Merchandising
Discount for Cash

The Guide

This guide is to be used as a reference to assist you in the implementation of DFC at your station and to explain the program to your employees.

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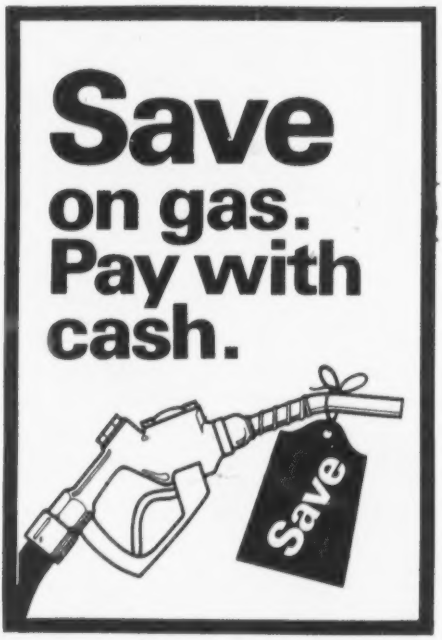
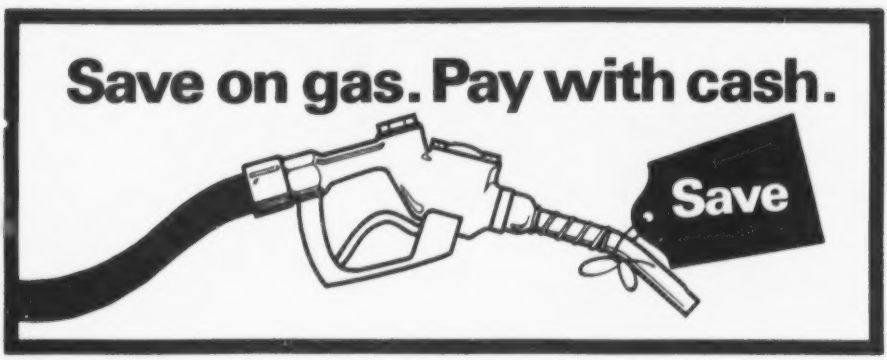




Discount For Cash

What It Is

Discount For Cash is simply giving customers who choose to pay cash a savings on their gasoline purchases.

Amoco is offering a discount from your dealer buying price on all grades of gasoline that you purchase and will charge a fee on credit card sales only.

Why We Have DFC

With cash customers representing over 60 per cent of all retail gasoline sales, it is to your advantage and ours to attract this increasing market.

With DFC you have the opportunity to increase your gasoline sales with these new cash customers while retaining your credit card volume.

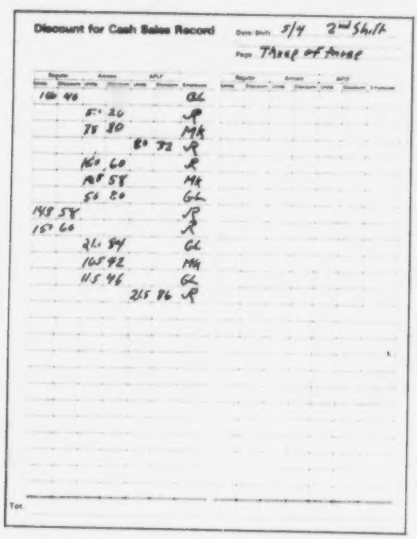
The amount of the discount for cash shown is for example purposes only. As an independent businessman, each participating dealer has the absolute right to set whatever price and discount he chooses.

1

Implementation of DFC

As implementation of DFC approaches for your location, it is very important you are prepared for a smooth transition.

- ☐ Develop a competitive pricing policy which recognizes the importance of price conscious cash customers. This can be done by completing the information on your weighted margin worksheet.
- ☐ Be sure your driveway personnel and other employees are trained to handle questions concerning DFC.
- ☐ All POP and DFC signage should be properly displayed to attract and inform the passing motorists. The quad sign continues to be your most effective method of presenting your cash prices to the customer where permitted.


Discount for Cash Sales Record

Date Shift 5/4 2nd Shift

Page Three of three

10	40						GL				
		5	26				JP				
		28	30				MR				
				8	32		JP				
		14	60				R				
		18	58				MR				
		5	20				GL				
148	58						JP				
15	60						R				
		21	84				GL				
		165	92				MR				
		115	96				GL				
				215	86		JP				

Tot

Station Accounting

DFC will not change your current method of station accounting when using the separate island or the designated hose method. It will, however, require that you keep an exact record of the number of gallons sold on credit and the number sold for cash in order to balance your records at each checkout period when using the discount method.

1. Use Your Pump Totalizers

	Example:
Read the total gallons dispensed from your pump totalizers	2000 gal. dispensed
Less total credit gallons from your SVB log sheets	– 600 credit gallons
Equals total cash gallons	1400 cash gallons
Cash gallons × cash discount per gallon	× 3¢ discount per gallon
Equals total cash discount paid or allowed	$42.00 total cash disc.

2. Use of the Discount for Cash Sales Record

The cash sales record is completed by the dealer or employee on each transaction. It will allow the dealer to keep track of either the total discount amount or the total gallons discounted in each checkout period.

3. Use of Cash Register Tapes

Those stations equipped with cash registers that will record either individual cash gallons or credit gallons may wish to use their totalizer tapes to determine cash gallon sales per checkout period. You may elect to record the cash discounts on your register tape.

Legal Regulations

Specific state and federal laws must be observed in Discount for Cash merchandising. Observance of all applicable law is your responsibility.

Price

- ☐ Federal law prohibits any surcharge imposed on credit card customers but allows discounts for cash. In other words you *can not* add on to the price for credit sales but you *can* discount for cash.
- ☐ The price on your pump must be your credit card price unless it is a cash only island.

Availability

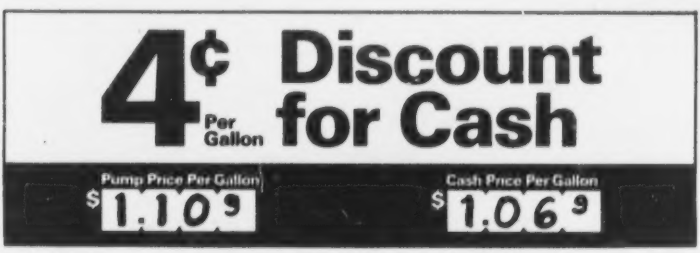
- ☐ Cash discounts must be available to all customers.
- ☐ The discount offer must be prominently displayed.

Disclosure

- ☐ The availability of the discount should be posted on all pumps.
- ☐ Discount signs must be located where they can be seen by the customer prior to making the purchase.

Other

- ☐ In states that have specific statutes governing price posting or other discount for cash regulations, such statutes or regulations should be strictly observed.



The amount of the discount for cash shown is for example purposes only. As an independent businessman, each participating dealer has the absolute right to set whatever price and discount he chooses.

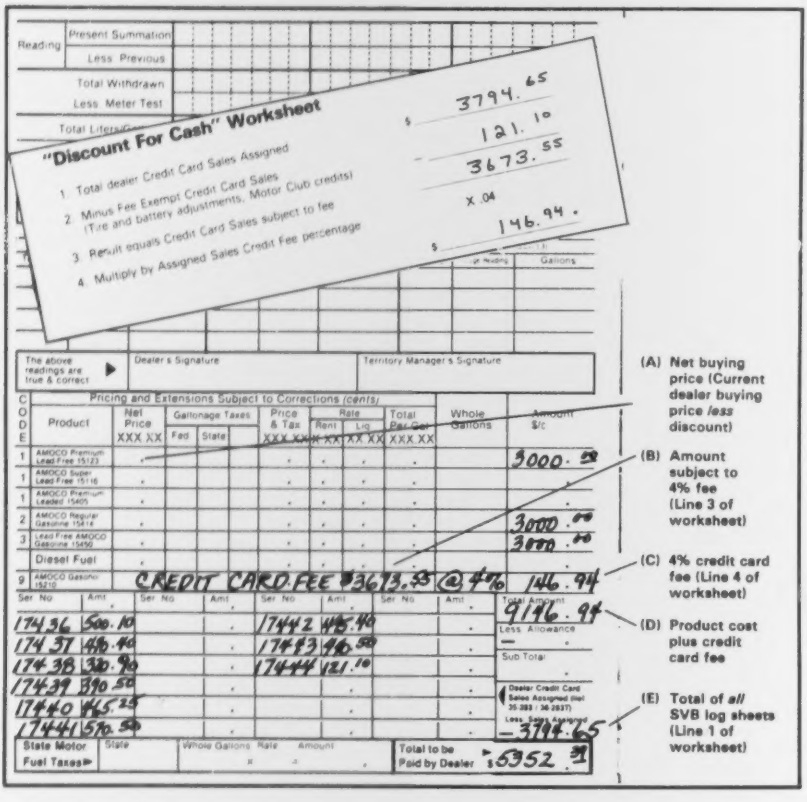
MMP Dealers

Discount for Cash Program
Preparation of Form 18-128 (Sales Ticket) MMP Dealers

Per sample, prepare as follows:

*A. Net price is the current dealer buying price less ____¢ gallon discount.
B. Enter on credit card fee line, total assigned sales minus exempted assigned sales as determined on the DFC worksheet. (See worksheet.)
C. Multiply assigned sales subject to fee by 4 per cent and post.
D. Add product costs and credit card fee to arrive at "Total Amount" due.
E. Subtract total of all credit sales being submitted (exempt *and* non-exempt) from "Total Amount" due. The result is the "Total Amount" to be paid by dealer.

**See your territory manager for appropriate discount.*


"Discount For Cash" Worksheet
1. Total dealer Credit Card Sales Assigned $ 3794.65
2. Minus Fee Exempt Credit Card Sales (Tire and battery adjustments, Motor Club credits) 121.10
3. Result equals Credit Card Sales subject to fee 3673.55
4. Multiply by Assigned Sales Credit Fee percentage x .04
$ 146.94
CREDIT CARD FEE $3673.55 @ 4% 146.94
9196.94
-3794.65
5952.31
(A) Net buying price (Current dealer buying price less discount)
(B) Amount subject to 4% fee (Line 3 of worksheet)
(C) 4% credit card fee (Line 4 of worksheet)
(D) Product cost plus credit card fee
(E) Total of all SVB log sheets (Line 1 of worksheet)

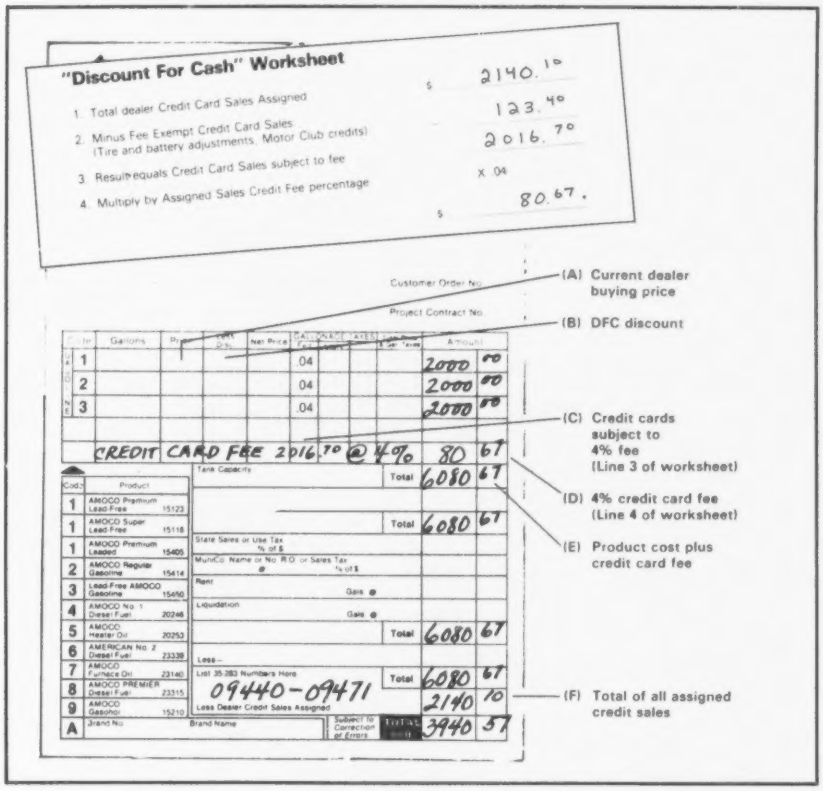
MRM Dealers

Discount for Cash Program
Preparation of Form A090 (Sales Ticket) MRM Dealers

Per sample, prepare as follows:

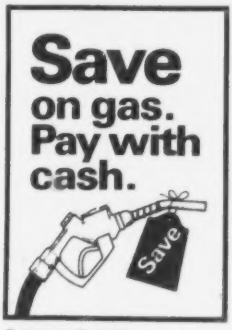
A. Price column must be the current dealer buying price.
*B. In "Less Discount" column, enter ____¢ per gallon discount.
C. Enter on credit card fee line total assigned sales minus exempted assigned sales as determined on the DFC worksheet. (See worksheet.)
D. Multiply assigned sales by 4 per cent credit card fee and post.
E. Total equals product cost plus credit card fee.
F. Subtract total of all credit sales being submitted.

**See your territory manager for appropriate discount.*

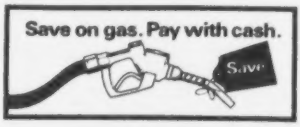

"Discount For Cash" Worksheet
1. Total dealer Credit Card Sales Assigned $ 2140.10
2. Minus Fee Exempt Credit Card Sales (Tire and battery adjustments, Motor Club credits) 123.40
3. Result equals Credit Card Sales subject to fee 2016.70
4. Multiply by Assigned Sales Credit Fee percentage x .04
$ 80.67.
Customer Order No.
Project Contract No.
Gallons
Net Price
Amount
.04 2000 00
.04 2000 00
.04 2000 00
CREDIT CARD FEE 2016.70 @ 4% 80 67
Tank Capacity
Total 6080 67
Total 6080 67
State Sales or Use Tax
Rent
Liquidation
Total 6080 67
Less—
Total 6080 67
09440-09471
Less Dealer Credit Sales Assigned 2140 10
3940 57
(A) Current dealer buying price
(B) DFC discount
(C) Credit cards subject to 4% fee (Line 3 of worksheet)
(D) 4% credit card fee (Line 4 of worksheet)
(E) Product cost plus credit card fee
(F) Total of all assigned credit sales

Station POP Program

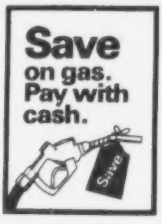
Promotional Signs



Perimeter Pole Sign Insert



Pump Island Sign Insert



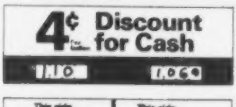
Window Sign Insert

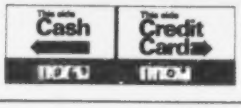
Price Signs

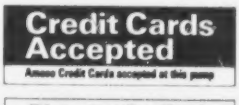
Quad Price Sign Inserts

Windmaster Sign

Directional Signs







Pump Toppers

Trash Receptacle Signs

6

The amount of the discount for cash shown is for example purposes only. As an independent businessman, each participating dealer has the absolute right to set whatever price and discount he chooses.

Answers

Answering Customer Questions About DFC

Everyone who works at the station must be prepared to answer customer questions about Discount For Cash. Make sure you explain and discuss all elements with your customer salesmen.

A customer handout has been prepared to explain the program in a positive way. It deals with a number of typical customer questions. During the first few weeks of DFC offer it to all customers.

Many of the questions will be influenced by the usual buying habits of three main customer groups. These are:

- ☐ **Cash buyers**
- ☐ **Credit card purchasers**
- ☐ **Commercial customers**

In answering the questions of individuals in each group, consider their real interests.

Now you can save money and still get the same quality products, services and value you've come to expect with the
Amoco Discount For Cash Program
Q. How does it work?
Q. Will it cost me more to buy with my credit card?
Savings or convenience. The Choice Is Yours.

1. Cash Buyers

The cash customer should be assured that he or she will continue to receive quality products and service. You want their business so you have taken the cost of credit out of the retail price. Now they can have your quality name brand products and service and still save money.

2. Credit Card Purchasers

Credit card customers have concerns. Are they being charged extra? Do you really want their credit card business?

Your answers should emphasize that people who use the credit card are your best customers.

You want their business and are glad to be able to offer them a choice.

You have not raised the price but have taken the cost of credit into account in offering cash savings.

3. Commercial Customers

Commercial customers will want to know whether they will be charged more than the discount price for their regular charge purchases.

You, the dealer, should establish your commercial policy, then handle their questions personally.

Special arrangements may be needed. These might include:

- ☐ Converting them to in-house credit, with frequent payment schedules.
- ☐ Offering a discount on full serve.
- ☐ Other arrangement or combination.

NOTE: You should take the initiative in dealing with commercial customers under DFC. Contact them in advance and discuss the coming changes.

If a question is asked of one of your employees before you have discussed it with the account, have the employee refer the customer to you.

Use DFC to Let Yourself Grow!

Without DFC you have been losing business to stations that attract customers by selling for cash at a lower price. With DFC, you can now meet this competition. You have a new opportunity to grow.

At the start of DFC you may not be making any more money on gasoline than before. Even so, you will have reversed a volume down-trend and the continued erosion of all your business.

Equally important, you will have more customers—more buyers of your other products and services.

Remember, you are in a volume-driven business. Gasoline is the magnet that draws customers into your station. Merchandising for volume can have a positive impact on your long-term profitability.

The initial volume impact will be determined by the pricing strategy you elect to use. At the start, your strategy should be based on a careful analysis of your gasoline volume and profit and an up-to-date survey of your competition.

To maximize long-term profitability, your strategy should be regularly evaluated and fine-tuned, utilizing actual operating experience to make timely adjustments. The flexibility of DFC is made to order for continued growth.

DFC will reinforce your total merchandising effort. Applied with Allstar service, operating efficiency, and your professional leadership image, it can take you where you want to go.

Employee Training

You know what DFC is and how it works.

Your next step will be to insure that all your employees know how it works, what they are to do and how to answer questions. This should be done at a training meeting. Then keep on training your employees—and all new ones. They are the key to your success.

The following outline is provided to assist you in getting your employees up to speed quickly so the program will operate smoothly, right from the start.

Training Outline

Preparation: Obtain the following handouts for each employee from your DFC merchandising kit.

1. DFC Conversion charts
2. DFC sales record sheets
3. Customer handout booklets; "Cash or Convenience. The Choice If Yours."
4. (Optional) Samples of station P.O.P.
   - ☐ Sign Inserts
   - ☐ Pump Toppers

1. State the Purpose

Starting _____ we will have a new gasoline merchandising program. It's called Discount For Cash—or DFC. It means that we will give customers who pay cash for gasoline a discount from our regular price paid by customers who use the credit card. This is a really exciting new concept and we are going to work with it to satisfy more and more customers. You are a very important part of it. So—the purpose of this meeting is to get ready to put the program into effect.

2. Tell why we have it

We need to get more business from customers who pay cash for their gasoline. There are a lot of them we seldom or never see because they're going to stations that sell for cash at a lower price. We know that this group which we call "switchers" is large and growing and we want to attract more of them.

With DFC we now have the opportunity to get our share of their business.

3. Announce your goal

Our goal is to increase our gasoline sales to these customers and to offer everyone of them Allstar service and treatment that will keep them coming back.

4. Explain how DFC works

Cover these points:

(1) Amoco allows a discount on our gasoline buying price.

(2) We pay a fee on credit card sales. The fee covers the cost to Amoco of handling the credit sales that we send them.

11-626 O—82——11

5. Explain discount handling procedures

What we talked about already is how the plan works for Amoco and for me, the dealer.

But what is most important is for you to know how DFC works here at the station and with the customer—how to handle it and how to talk about it.

Cover these steps:

1. It's a new and exciting idea and with our Allstar performance we are going to make it work well!
2. Hand out DFC conversion charts.
3. Explain how to use conversion charts in allowing cash discounts.
4. Hand out DFC sales records (if used).
5. Show how the cash discount record form is completed.
6. Explain exempt items: Amoco Motor Club, tire and battery adjustments, etc.
7. Enter these transactions on a separate SVB log sheet so they can be deducted from the handling fee.
8. Discuss use of daily pump totalizers reconcilliation.
9. Show how it will be used to keep track of discount overages or shortages.
10. Discuss use of cash register tape for discount control.

(Answer any questions)

NOTE TO DEALER: Think thru your own control system. Plan it out and then discuss it with your employees. You should have developed your system as explained earlier under Station Accounting.

6. Explain driveway procedures

1. Full serve customer:

- ☐ Greet the customer.
- ☐ Solicit a fill-up.
- ☐ If the sale is a *fill-up* for *cash*, give the customer the amount of the discount in cash.
- ☐ If the sale is for an *exact amount*, for *cash*, the customer may take the discount in cash or extra gasoline.
- ☐ Complete Allstar service and courtesy.

2. Self serve customer:

- ☐ Customer purchases the dollar amount wanted or fills tank.
- ☐ If the customer pays cash, deduct the amount of the discount.
- ☐ Complete Allstar treatment and courtesy.

3. Commercial customers:

- ☐ Explain how to handle any commercial accounts and have your customer salesmen refer questions from them directly to you.

7. Discuss answering customer questions

Until customers become familiar with the new way of doing business you must be prepared to answer their questions.

Expect the most questions from credit card customers.

Q. Is my credit card still good here?

A. Yes. Your credit card is still good here and at all other Amoco dealers that normally accept the credit card. Credit card customers are the backbone of our business and they still get the service, convenience, security and records which the credit card provides.

Q. Are the cash savings the same on all grades of gasoline—and for full serve as well as self serve?

A. Yes. Our cash savings apply to all grades of gasoline and also to the full serve and self serve customers.

Q. Why are you doing this discount or cash savings thing?

A. We feel it's a way to keep our customers and our business. A lot of customers want to pay cash and this gives all of our customers a choice and helps us grow. Yet at the same time we offer all the advantages of the credit card to our customers who have always been with us.

Q. How do we handle commercial accounts or one-station credit cards?

A. Dealer explains his program—"I will need to talk to each commercial account individually before we begin DFC. I'll let you know exactly how to handle them. In the meantime, if you get questions, ask them to see me."

Q. Do all Amoco stations give the same cash savings?

A. Most Amoco stations are run by independent businessmen who make their own decisions, so there may be some differences.

Q. How do you handle it if I want to get $10 worth of gasoline for cash?

A. We can do that either of two ways. We can stop at the amount you say and you get your savings in change – or we run the pump past $10 to give you extra gasoline for your money.

Q. Aren't you penalizing me for using my credit card?

A. No. You see, we have kept our usual pricing policies. We have not added on for credit. We take the cost of credit into consideration and offer savings for paying cash. We give you a choice and value your business either way you go.

Distribute customer handout brochures and read through questions and answers.

- ☐ *All* customers should be offered the handout brochure during the first month of DFC.
- ☐ After answering any customer questions, offer him or her the handout brochure.

Reemphasize the importance of answering all questions in a positive courteous, businesslike manner.

Remind your customer salesmen that credit card customers are still our best customers. We want to keep them and expect most of them to continue to use their cards regularly.

8. Discuss importance of Allstar service

Giving Allstar service courtesy and treatment to every customer becomes more important than ever with DFC.

- ☐ Review Allstar service for full serve and self serve customers.
- ☐ Full serve customers, cash or credit card, must get our best Allstar service.
- ☐ Customers will be sensitive to the fact that they are paying several cents more for full serve. Its up to you to show them your service is worth the price.
- ☐ We're also looking for new cash customers with DFC. That's why we have it. Many will be self serve. Make them feel welcome. Thank them for their purchases. Invite them to come back.

9. Restate incentives

- ☐ DFC gives us the opportunity to increase our business at a time when gasoline demand is declining and competition is fierce.
- ☐ DFC gives us the opportunity to grow, and for everyone to benefit. It keeps us working and in business.

(Optional)

You may elect to introduce the new station P.O.P. and assign the jobs of putting it up.

10. Get commitment

- ☐ Answer any questions.
- ☐ Close on a positive note with commitment to give it their full support.

AMOCO

Senator DIXON. I would appreciate your response, Mr. Kowal.

Mr. KOWAL. I love competition. I love the fact that our competitors are all approaching the problem differently. I will share with you only our perspective.

In the case of Atlantic Richfield Co., we looked at the program, one of the last free credit cards probably in the American society, free in the sense that there is no charge for issuance, no charge for ownership, and in the case of Atlantic Richfield no charge for credit; that is, we are not in the banking business; we do not have installment programs. You buy for a month, we hit you with a statement by the 20th of the following month, and you pay by the 10th of the month after.

That float, plus little things like stamps that went from a nickel to 20 cents during controls, from 1972 to 1981; interest rates went from 6 percent to 18-plus prime. This convinced us that we are looking at a $73 million white elephant. It was obsolete and out of place.

We went into the market and found that 66 percent of our own credit card customers would stick with us if we gave them the money. Every gallon of gasoline we sold on a credit card cost 8.4 cents—almost 9 cents a gallon for what happened on the credit card.

When we eliminated the credit card for the third of the gasoline we sold on credit cards, we were able to reduce our entire gasoline pool by 3 cents a gallon.

If you want to charge 4 cents, you are probably only getting half of your cost of credit. People who are being asked to pay any part of that are probably going to feel like they are paying too much, but our judgment was, we do not think anybody would pay that much compared to the response we would get if we just knocked the whole thing out.

We have had a 50-percent gain to our service stations since April 1, day 1, and it has lasted every single day since then. The average dealer we have is selling 50 percent more than he was last year, all cash.

I have trouble relating to the stories that we were hearing this morning. I feel sympathetic with them, but I cannot relate. You were talking to the fellow with the 30,000-gallon-a-month station that went to 18,000, and he tried to get it back to 30,000.

Senator, our average dealer does over 115,000 a month. We have 25 or 30 dealers in Chicago that are doing over 200,000 a month. That is an Arco dealer. An Arco dealer is making 4 cents gross, and can be making $100,000 a year, on a 4- or 5-cent margin. We do not understand 10-cent margins. We respect them. There is room in the marketplace for everybody except the guy who cannot hack it.

As you pointed out earlier, we are in a dying industry. We are on a permanent decline in gasoline consumption, and I applaud that. We urge conservation. We have preached efficiency. We are against controls. We just want a chance to compete. If we come a cropper, we will lose, but we are going to back our dealers and our jobbers as long as we can.

There is room for other people, we think, and we do not want to have legislation that takes us to the bottom rung. If somebody

needs a dime margin on his 26th anniversary, I am not sure he ought to get a dime if it is not necessary for the efficient market.

Senator DIXON. I would appreciate having your statement in the record or the methodology that you use, or the rationale employed in the decision your company came to as well.

Mr. KOWAL. I have just given it to you, other than the fact that we looked at discounts and some other options. And you sensed that you are going to get into some competitively sensitive information that we would share under the proper safeguards. But as to how we assessed each of the things that many of our competitors are now doing, necessarily that would betray what we believe are the strengths and weaknesses of our position versus those.

I am not sure, as we are all adjusting to this new competitive market after 8 years of controls, that I would want to put that in the public domain, Senator, if you will accept that.

Senator DIXON. All right.

Let me pursue now the position of the dealers. I think frankly a standard belief among people in the country—because the stories have been related so many times that they have absolute currency on the street, not just in the committee hearing—is that you take the poor dealer, and once you have got him, you keep on jacking up the rent until you price him out of the market.

Let me make it very clear that I do not have any quarrel with an increase in rent that meets the competitive marketplace and the needs of a neighborhood, and so forth, but I would like your response to the assertions made here that a man gets a station, and he works hard night and day, paying x amount of dollars a month, and the next time he comes around—there was even a figure of 300 or 400 percent thrown out here at this committee hearing—he finds that kind of a rental increase.

What do you both say to that?

Mr. RAUSCHER. Let me start from the beginning on that by saying that it might depend on your motivation. If in fact we were trying to drive dealers out of service stations so that we could gain their control and operate them on a salary basis, I would be coming from a different point of view. We are not.

We will survive in our business on a lessee-dealer organization, and that has to be mutually profitable for both of us for that to be successful.

I think you have got to look at where we have decided to go on rent. We have established a realistic rent goal for our investments in our operations; that is, a reasonable rate of return. I do not think anyone would say that is outlandish.

We have set out over a period of 3 or 4 years to get to that level. There have been significant rental increases; there is no question about it. That may be testimony as to where we had to come from to get to a reasonable level. We have done it on a programed, equitable basis. We treat all dealers the same. We look at the assessment and development of their rental basis with an identical formula basis. We take a look at the investment value of the property as an outside appraiser would. We look at the replacement value of the facilities. We take a look at the actual taxes. We take a look at the actual maintenance. That comes up with a rental on that par-

ticular location then. We have phased this in over the last several years.

We have not achieved our goal yet, and we certainly have not or are not receiving an unrealistic return on our profit at all.

Senator DIXON. It does seem to me—and I want to turn to Mr. Kowal—that while I can appreciate what you are saying from the standpoint of your industry, leasing practices are common in our commercial experience in every walk of life, not just in the petroleum industry. In most leases there is some reasonable understanding about what the increases in the future will entail, and in fact most long-term leases of any length contemplate what the future years will call for. They might build in a cost-of-living. As an owner of property and sometimes a lessee in my lifetime, I negotiated leases that took into account what we contemplated the cost-of-living increases to be over a period of time.

It would seem to me that those are rational considerations that one ought to make, when the big guy is dealing now in the case of a contractual relationship with a very small businessman.

Chuck Keller is not the size of Shell, but he is an awful lot larger in his economic interest than one guy that operates on a rental basis one dealership on a corner in Belleville, Ill.

Mr. KOWAL. Senator, on behalf of Atlantic Richfield, our leases are for the terms prescribed by the Petroleum Marketing Practices Act, and our rent is disclosed in the contract for the entire 3 years.

Senator DIXON. Before they enter into the lease?

Mr. KOWAL. I do not recognize the kind of lease you were talking about. It is entirely possible that somewhere in our industry there is a lease that opens up to pick up increased taxes. It sounded to me like that was what he was describing.

Senator DIXON. I do not mean to criticize the position taken by anyone here. It is not my province as the person running this committee hearing to do that. But it does seem to me, for a small businessman entering into the one business he is involved in on an individual basis, that all of the things you can do to reveal to him the truth of his operation in front is awfully important. Maybe he does not want to go into it then. You know, I am not going to quarrel with that.

If John Jones says to the majors when they come to him to do business at that filling station on that corner in Belleville, Ill., "Hey, I can't afford that rent," my response to that would have to be, that is what the free marketplace entails.

But I do think that for John Jones to enter into an open-ended lease and pay $300 a month on that open-ended lease the first year—if these things do take place—and then to find out after he has worked 16 hours a day and built up a halfway decent business that next year the lease is $1,250 a month is a rather shocking practice. I do not want to be dramatic here, but I do want to suggest that the right to know these things is the kind of thing that has a lot of appeal to me.

Mr. RAUSCHER. I understand what you are saying.

Mr. KOWAL. Senator, I have seen some cases of rents that, as to a particular location, went up on the order of magnitude that we heard a witness describe earlier. Almost every time that I have seen that happen, it was not because the supplier oil company was

raising its rents 300 percent across the country. What they were usually doing was going from something like the historical gallonage rental you heard described to something like an economic rent that my associate has just described.

If a dealer had an old-style gallonage rent, and he was running a full serve operation at 20,000 or 30,000 gallons a month with a 10- or 15-cent margin, which is his way of doing business, and the supplier company said,

> Now, wait a minute. I have got two stations that are identical. This guy is in the gasoline business selling 200,000 a month; this guy is in the service business, but the real estate is identical, and I would like the guy doing 200,000 to feel free to go to 300,000 if he wants to, but if I keep charging him 2 cents a gallon for every gallon he sells, he is going to get tired of it. So I will just charge them both $15,000 a year.

Now, the fellow doing 30,000 gallons paying 2 cents is going to see a substantial rent increase. Correspondingly and simultaneously, the other fellow is going to see a substantial rent decrease, and yet the real estate just went on parity.

Senator DIXON. Yes.

Mr. KOWAL. You also appreciate that the principal protection against an individual dealer being abused is that our good friends in the legal department insist that everybody's rent has got to be done the same way. You cannot unilaterally go and pick on someone. So if you are dealer oriented in your market, as Atlantic Richfield is, and as my associate is, you would be cutting your throat to go to an uneconomic rent.

Senator DIXON. Could I respond by saying this? I understand everything you have said and Mr. Rauscher has said with respect to this subject matter. What has happened in the past, as far as this Senator is concerned, is history. In the first place, you cannot do anything about it anyway. What we are talking about is everything from October 12, 1982, forward.

I am sure that the majors have their ears in here for the other companies as well as your two fine companies. The message I would like to have every one of them hear is this—that that is a thing that has currency in every community.

I have heard over the years so many years, "Poor Joe started his station, worked night and day, had a wife and three kids, and the minute he had it going worth a quarter, they jacked it up so bad that they took it from him, and that is lousy."

You see, there is a sense of this that has currency in the country. If I could send a message back to the companies, you are big, and you have all these resources at your disposal. If you could convey back through the communications process to all of these people, "Hey, we have to have a fair return in the marketplace, which is part of the American free enterprise system that nobody would basically quarrel with, but we want to do it up front with you and let you know, and have this full disclosure with you, so that in the future these people know when they do business with the majors that this process will unfold completely for them." They will know before they get into it what they are getting into. Yes, there will be a review in so many years, and then the economics of that time and place will enter into the equation, quite obviously.

I think that is so valuable, because what this Senator senses hearing this is that there are certain perceptions here that differ,

obviously, between the little folks and the big folks, but more importantly than that, so many times I think maybe a lack of communication and lack of understanding of what is taking place.

May I conclude, the time having expired, by inviting you and other representatives of the majors, to bring to us any other information you might have, and to say again in an oversimplistic way that the jobbers' message that they sent here was that, if they are in the scheme of things, they ought to be able to make a fair profit. The dealers have said, that if they are in business, they ought to be able to make a fair return.

We are all concerned about the consumer getting a fair price, and that is all part of this scheme of things, too.

I would want to say to everyone in this room that I come here with no preconceived notions, no fixed ideas of what ought to be done. What has happened here is a valuable education for me, and I know it will be for every member of the Small Business Committee.

You are an important part of our economic experience in this country, every one of you in this room, and we are concerned about you, particularly in these difficult times. I know I speak for the entire committee as well as the Congress when I say that the concerns of you and the consumer in the country will be uppermost in our mind. Everything you have said here is a matter of value to us, and we will try to act accordingly in the future.

Thank you very much for your accommodations today.

Without objection, the prepared statements of Mr. Rauscher and Mr. Kowal will be included in the record at this point.

[Material referred to follows:]

STATEMENT OF ROBERT J. RAUSCHER, REGIONAL VICE PRESIDENT, MIDWEST REGION, AMOCO OIL CO., CHICAGO, ILL.

Thank you, Mr. Chairman. I am Robert Rauscher, Vice President of Marketing for the Midwest Region of Amoco Oil Company.

I would like to briefly describe what Amoco sees as the present condition of petroleum marketing and then talk for a minute about the steps we have taken in attempting to serve our customers and operate profitably in a highly competitive market.

We can begin with the fact that the oil industry is facing a declining demand. This represents a real challenge for many companies involved because our long term historical pattern has been one of growth in good years and bad. Moreover, the impact of today's decline is without a doubt worse than it would have been had the industry not been under controls for the greater part of the last 10 years.

Those controls kept many consumers and many of us in the oil business from seeing the full impact of years of escalating prices. They discouraged conservation and they prevented the industry from making gradual changes to keep up with the times.

Even without the history of controls, however, there are other factors in today's problems. The recession is unquestionably the largest. But there also have been laws mandating smaller and more efficient cars. There have been tax and regulatory policies that have shrunk the home heating oil market. And there is a growing consumer energy awareness that has forced many changes in the ways customers want to be served. All this reduces demand for our chief products.

In hard terms—and they are very hard if you're in the business of selling petroleum products—total oil demand has dropped 18.1 percent since 1978. Gasoline demand and fuel oil have dropped 13.9 percent and 20.1 respectively in the same period.

According to the American Petroleum Institute, 54 refineries have closed completely and another 22 have partially shut down. Although we believe this number actually understates the total shutdown refining capacity, we expect that still more

excess and marginal capacity will close down in the future as the industry adjusts to lower demands for its products.

When we consider the impact of the declining market in total product volumes and total refinery closing, it's not surprising that individual marketers see that decline reflected in their own operations.

That's not to say that all marketers have been evenly hit. Major companies have been particularly hurt as customers have become more price conscious. Independents, on the other hand, have increased their total market share from 22.8 percent in 1975 to 32.5 percent today.

In spite of such trends, Amoco believes there is role for branded marketing. Accordingly, we have made the consolidation required by a smaller market. We have closed three of our ten U.S. refineries. We have shrunk our marketing regions from 5 to 3 and our district offices from 26 to 18. We have withdrawn marketing operations from 11 states. We took a look at our different lines of business and decided to sell off the fertilizer lines which weren't performing satisfactorily and didn't show any signs of being able to change.

One thing I want to stress is that with all this reevaluating, we have consistently stayed with the concept of our basic dealer and jobber marketing in wholesale and resale channels. This means that Amoco is committed to the network of independent business people who distribute our products in our 33-state marketing area.

It's important for you to note that Amoco changed its method of serving rural areas and small towns from an employee commission agent organization to an independent jobber organization in the Midwest only 7 years ago.

We believe the major reason that we have had such success in marketing this way is because we are a prodealer and projobber company. The highest levels of Amoco management are accessible to our dealers through their freely elected Dealer Advisory Council.

In addition to ongoing contacts, the Council meets annually at our headquarters for face-to-face sessions with Amoco management. We have similar programs for keeping in touch with jobber concerns.

These are not token programs. They are a real channel of two-way communication in the company. And, we're very pound of it.

For some years now, we have kept track of the preferences of consumers through marketing research programs. We have observed that the fastest growing segment of customers is oriented more to convenience, to fast fillups, to low prices and away from the amenities traditionally offered by major companies at full service stations.

Although we intend to retain all the amenities that our branded customers want, we also are going after the business of the non-traditional Amoco customer. To do so we are changing the ratio of our service station mix to include more self-serve and pumper stations. For customers who prefer them, we also are retaining a majority of the conventional stations and upgrading car care and mechanic certification programs.

Along the same lines, we are now offering a dual cash/credit price to customers—our Discount For Cash program. Again, the idea was to attract the cash customer while still offering credit to those customers who want it.

That was a big decision for us. We have one of the largest and most loyal bases of traditional credit card customers in the industry. The card is familiar to and accepted by those customers and our dealers and jobbers. In marketing, you just don't change a familiar and successful factor without full consideration.

But we have taken this approach: The Customer tells us what he or she wants and what they don't. They vote with their dollar everytime they drive across a service station driveway and they get their way. For example, sometime back, many segments of the industry resisted the concept of self-serve gasoline sales. Many companies and many dealers didn't feel that was consistent with the idea of a "service station" But today, 65 percent of all gasoline is sold through self-serve pumps . . . and many of the newest gasoline stations are designed to appeal exclusively to the self-serve customer.

Similarly, our Discount For Cash program is aimed at the fast growing segment of customers who want lower prices and pay cash. It's our way of signaling those customers that we want their business . . . and we are willing to make the changes it takes to get it. Even in a shrinking market, we believe there is a place—and a profitable place—for any company willing to look at consumer trends and then adjust its operations to compete for that business.

The other side of that coin is this: Some segments of the industry refuse to face the facts of declining demand. These segments apparently think that it's okay for others to close down facilities, or withdraw from markets that can't be profitably

served, or consolidate internally, but that they should expect to continue operations just like in the old days when demand grew every year.

We have said to our jobbers and dealers just what I have told you this morning: "Future survival will depend on making your operation as efficient as it can be. You will have to make the hard decisions inside your operations that we have been making inside ours. But most importantly, you will have to signal the customer that you have the combination of prices, goods and services that he wants."

Thankfully, many of our jobbers and dealers didn't wait for us to see the light. Many of them began doing these same things some years ago. Those business people are in the marketplace today because they made tough decisions a long time ago. And they will be in the marketplace tomorrow because they are continuing to make such decisions now.

What I have been describing this morning is a marketplace that is in no way anti-competitive. It is, in fact, one of the most competitive marketing environments that can be found in American business today. As I mentioned at the outset, many of the changes going on have been more dramatic and sudden than they would have if we had not been under rigid controls for a long time. But the industry is going where it would have been going in any case—and that is just where the customer wants it to go.

There are painful adjustments that have been made and more that will be. Certainly, the kind of consolidation I have described at Amoco hasn't always been easy or pleasant. But we believe that the customer and ultimately the company is better off because of those changes . . . and the many similar changes taking place throughout the industry.

Thank you for this opportunity to provide this perspective to the changes in our industry. I'd be happy to answer any questions the Committee may have.

STATEMENT OF JAMES D. KOWAL, MANAGER, COMMERCIAL AND DISTRIBUTOR SALES, ARCO PETROLEUM PRODUCTS, LOS ANGELES, CALIF.

It is our understanding that the purpose of this field hearing is to inquire into the basis of gasoline distributor allegations that, generally, market conditions are deteriorating; and, specifically, the role of individual marketers such as ARCO in today's environment.

We are pleased to be given an opportunity to appear. We recognize and are sympathetic with the dislocations occurring in the marketplace. However, we submit that they are natural following almsot 8 years of controls which largely prevented full competition. We are seeing 7 or 8 years of competitive posturing impact in a compressed eighteen-month period.

During those 8 years, in the various levels in the refining-distribution-marketing systems, many businesses remained "status quo", coasting as it were under the protective umbrella of the regulations. Many businesses became new entrants, specifically seeking to take advantage of the regulations. Others prepared for decontrol and the resumption of a competitive marketplace.

Obviously, some businesses did a little of each. ARCO, to the maximum extent possible put itself in the category of a company preparing for a long term competitive environment and also a strong advocate of decontrol.

After almost thirty years of continuous growth in the automotive fuels business, or industry faces a declining market. Gasoline marketing itself is not a "mature" industry in the classic economic sense, it is in fact beyond that.

We have positioned ourselves to be competitive not in a stable market, but in a declining market. Our strategy is not short term. It has been several years in the making, and it is designed with an eye to the turn of the century.

In the last ten years, we have sold over 4,500 of our service station properties, sold a major refinery, reduced our work in refining-distribution-sales from 12,600 to 7,300, reduced our marketing area from thirty states to seventeen, and maintained our sales volume.

Our refineries process an average of 165,000 barrels of crude oil versus industry average of 65,000 barrels. Our refining investments in plant and technology enable us to process 84 percent sour crude versus an industry average of 55 percent. Our product make at the refineries includes 76 percent gasoline and distillates versus an industry average of 70 percent. Most importantly, our lessee dealer volume thruputs for gasoline exceed 115,000 gallons per month versus an industry average of approximately 50,000 gallons per month. These efficiencies enable ARCO and its resellers to enjoy economies of scale and profit which belie and make ridiculous allegations of short term predatory intent.

We also deny the current popular allegation that our marketing position from Oregon to California and Virginia to Maine is subsidized by Alaskan crude oil. We have been buying that oil more than 5 years and no one suggested it was subsidized anything until after we dropped our credit cards and reduced prices.

In fact, the ARCO Petroleum Products Company (refining-distribution and marketing operations of Atlantic Richfield Company) pays market prices for Alaskan as well as all other crude oils whether purchased from the ARCO Company that produced the oil or from unrelated companies. We are paying the same prices the other refineries are paying for comparable crude oils.

ARCO is proud of its refining and marketing operations, including its various resellers, and the resulting ability to serve consumer appetities while making a profit.

Senator DIXON. This committee hearing, Lowell Weicker, chairman, is closed.

[Whereupon, at 1 p.m., the hearing was recessed, subject to the call of the Chair.]

APPENDIX

National Oil Jobbers Council
1707 H Street, N.W., 11th Floor
Washington, D.C. 20006 202/331-1148

October 12, 1982

Hon. Alan J. Dixon
United States Senate
Committee on Small Business
424 Russell Senate Office Bldg.
Washington, D.C. 20510

Dear Senator Dixon:

On behalf of the National Oil Jobbers Council (NOJC) I would like to submit the following comments for inclusion into the record of the committee's hearing taking place in Chicago, Illinois, regarding the current situation in the motor gasoline marketplace.

The NOJC is a national federation of 42 regional and state associations representing more than 15,000 independent small business petroleum marketers. NOJC member companies market more than 50 percent of the gasoline and more than 85 percent of the home heating fuels sold annually in the United States.

The NOJC congratulates you and the Senate Small Business Committee for your interest in this most vital issue and in our segment of the petroleum industry.

Today the competitive viability of thousands of small business petroleum marketers is at stake. Since the decontrol of motor gasoline in January of 1981, the marketplace has been the scene of fierce competition; it has also been the scene of various actions on the part of our refiner-suppliers which independent marketers consider to be predatory in nature. Immediately following deregulation the marketplace was shaken by several refiner imposed actions including: the withdrawal from marketing in many regions of the country, complex and unworkable rebate schemes, the imposition of costly credit card processing fees, and as this summer driving season began, unfair allocations of gasoline product to independent marketers.

We would submit that since the beginning of the summer driving season that the jobber complaints of alleged predatory activity have escalated dramatically. These allegations emanate from all states and regions of the country with increasing frequency, making the current situation in the gasoline market a bleak one. The complaints about refiner-supplier practices tend to fall into several categories:

(1) discriminatory and subsidized refiner-supplier pricing policies, whereby a given refiner raises his jobber buying price, but does not raise his own transfer price to re-

finer company direct-operated retail outlets or his price to refiner supplied dealers by a concomitant amount;

(2) discriminatory allocation policies, whereby a given refiner-supplier places a product buying limit on independent jobbers, but does not do so upon his own company direct-operated stations nor upon his own direct-supplied dealer network;

(3) reductions in the jobber's traditional functional margin, whereby the differential between the wholesale jobber buying price and the retail dealer buying price has been reduced significantly or is virtually non-existent; jobbers cannot recoup their legitimate wholesale investments under such pricing policies (according to the Oil Express publication, 10/4/82, the jobber-dealer price differential has shrunk by 44% in just 18 months);

(4) changes in jobber credit limits and also more stringent than necessary credit limitations upon jobber customers; elimination of the traditional 1% within 10 days prompt payment discount, and, credit harassment of jobber customers, some of whom have been selling branded product for that refiner for more than 50 years;

(5) elimination of jobber freight or hauling allowances by refiner-suppliers; also refiner direction of jobber product purchases to terminal locations further away from a given jobber's marketing area; not only does the freight allowance disappear, but the actual cost of freight increases for the jobber due to further hauls;

(6) increased refiner-supplier undercutting of current jobber bulk end-user customer accounts, allegedly at subsidized prices, which jobbers consider to be predatory; and,

(7) granting of temporary competitive allowances to refiner direct-supplied dealers with no proportional, equitable allowance for jobber customers; this amounts to subsidizing one class of customer over another.

All these complaints coupled with the onerous burden of refiner imposed credit card processing fees, which cannot be passed through to the consumer, place a heavy financial burden on most all independent small business petroleum marketers.

No one refiner-supplier has been accused of all of the above predatory actions; however, virtually no refiner is exempt from at least one charge of predatory activity.

Due to these refiner imposed actions, the NOJC formed a special Ad Hoc Committee on Supplier Practices to study and recommend policy changes at the national level which would enhance competition in the petroleum marketplace. The Ad Hoc Committee recommended a four-point policy program; the four-point policy program was adopted by the NOJC Board of Directors at its Fall Convention last week. The program is as follows:

- o that the NOJC push for stepped-up efforts by the U.S. Department of Justice and the Federal Trade Commission to enforce alleged refiner violations of the existing anti-trust laws;

- o that the Congress initiate investigative hearings into current petroleum marketing problems and into federal agency enforcement policies concerning alleged violations;

- o that NOJC and its member associations develop a full slate of state legislative and other remedies to address predatory supplier activities peculiar to each state; and,

- o that the NOJC consider supporting a specifically-designed piece of federal divorcement/divestiture legislation tailored to address the overall problems of the gasoline marketplace.

NOJC's Board of Directors made these recommendations after careful consideration and with some reluctance. Government interference in the marketplace is something the Council has consistently sought to avoid, not encourage. Many marketers, however, now feel that the system of government controls which were eliminated in January of 1981, have been replaced with a series of equally onerous, inflexible controls by suppliers. With their backs to the wall, marketers may have no recourse but to seek some form of government involvement.

It has been stated many times that jobbers have available recourse under existing laws if they feel a certain refiner-supplier is imposing predatory actions upon the jobber. However, no single petroleum marketer, nor even an association of marketers can afford a costly and lengthy federal anti-trust lawsuit in pursuit of equity. A recent Federal Trade Commission lawsuit against eight major oil companies was dropped after millions of dollars were spent and after eight years of legal actions. There is irony in all this; the same federal anti-trust laws which were designed to protect small businesses from predatory competition also prohibit small businessmen from acting in concert or via an association to address the common grievances of a given supplier.

Therefore we urge the U.S. Senate Small Business Committee to pursue these hearings this Fall and into the 98th Session of the U.S. Congress. We pledge our association's cooperation in such hearings both in presenting instances of refiner abuse and in discussing possible remedies.

Respectfully submitted,

Michael T. Scanlon, Jr.
Vice President, Motor Fuels Policy

Union 76 Division: Eastern Region

Union Oil Company of California
1650 East Golf Road, Schaumburg, Illinois 60196
Telephone (312) 885-5141

union 76

T.W. Matthews
Vice President, Marketing

October 27, 1982

Mr. Allen Chvotkin
Minority Staff
Senate Small Business Committee
Room 424
Russell Senate Office Building
Washington, D.C. 20510

Dear Mr. Chvotkin:

On October 12 in Chicago, Senator Alan Dixon conducted a hearing of the Senate's Small Business Committee regarding "Current Marketing Practices and their Impact on Small Businesses." While we were invited to present testimony on the subject, our schedule precluded our doing so.

You have indicated that you would be pleased to incorporate comments from us in the hearing record if they were received on a timely basis. Accordingly, we are pleased to enclose two sets of remarks that we would have made had we been able to appear before Senator Dixon.

Your courtesies are appreciated.

Sincerely yours,

T. W. Matthews

TWM:rh
Enclosures

cc: Senator Alan Dixon

In calling the hearing on "Current Petroleum Marketing Practices and Their Impact on Small Businesses", Chairman Weicher requested comments on the petroleum marketing environment. He cited also the "frequently expressed concerns with respect to the structure and process related to petroleum marketing. I am pleased to respond to that request.

From my point of observation, the chorus of voices of distress are coming from the jobber or independent wholesaler segment of the industry. Their worries seem to focus on getting their fair share at a fair price from their suppliers.

Nine years ago, there were about 13,000 jobbers in this country, marketing about 35 percent of the gasoline. Today, there are 17,000 jobbers, accounting for 53 percent of U.S. gasoline sales. Why then should we hear expressions of concern about jobber survival? And why do we keep hearing that the jobbers plan to seek legislative "guarantees" for their survival?

In our opinion, jobbers are not being threatened. But if they react as if they are, they are a threat to their own long-term welfare. By now we all should have learned that, for the petroleum industry, more legislation and regulation make more problems than they solve.

Our industry argued for a decade that deregulation would provide new incentives for expanded exploration and development, curtail energy inefficiency and overconsumption, and restore order to the market.

The record of the past year and a half shows that we were right. The marketplace has accomplished what government rhetoric and regulation failed to do. Where once we talked about limited energy supply, today we talk about the limits of energy demand.

In 1978, the demand for crude oil in the United States reached a peak of nearly 19 million barrels per day. It was 17 million in 1980. And less than 16 million in 1981. This year, the rate is about 15.4 million barrels per day. This means that since the Iranian Revolution of 1979, America has slashed two to three million barrels per day from world oil demand. This reduction is helping to keep a lid on OPEC crude oil prices.

Conservation and reduced consumption are just one side of the energy story. The market approach also brought the promise of greater domestic energy supplies for America. In 1981, the decline in U.S. oil production slowed significantly as we stepped up domestic development. Natural gas production has reversed the steady decline of the early 1970's and is now holding relatively level. The outlook for future prices has put a damper on the "boom" of 1981, but domestic oil and gas exploration is still at its second-highest level of all time. The free market does work.

We are seeing a transition in the mix of primary fuels in America. By the year 2000, crude oil and natural gas will account for only 51 percent of our total energy demand, down from a peak of 74 percent in 1978. However, petroleum use will be concentrated in transportation. Most projections indicate that overall petroleum demand will be about the same in 2000 as in 1982. Demand for oil and gas will probably be down by about one quarter from 1978 levels -- but it already is close to that level.

From now until the next century, we expect U.S. total energy demand to rise. It should reach 1978 levels by about 1993. But oil demand will stay at approximately current levels. The major reduction will be in the share held by natural gas. Coal, nuclear power and other conventional and alternative energy sources will add to their output and relative share.

The point is -- the petroleum market is not shrinking -- it has already shrunk!

The rhetoric of fear that we hear again today -- that suppliers are trying to force the jobber out of business -- should be analyzed carefully. I cannot believe that it is a realistic threat. Speaking for Union Oil, I will say that nothing could be further from the truth. As a matter of fact, we have been increasing our marketing activity through jobbers.

Just as each jobber has its own marketing style, so do the oil companies. In their approaches to marketing opportunities, some suppliers will distribute fewer gallons through jobbers in the future. But some will increase their jobber penetration. But that shouldn't be a problem. I have never known a time when a quality jobber could not find a home with a major supplier.

Marketers have had to adapt constantly to change -- the price wars of the sixties and the heavy-handed government controls of the seventies, for example. For the eighties, competition has become more intense as marketers scramble to retain their full share of a diminished market.

The current depressed economy and soft market add to the pressures. In the past, marketers could count on an increasing demand for products once economic conditions changed. That won't be the case in the eighties.

But that's no reason to call on the government.

Further, the first half of the year hasn't been too rosy for the integrated oil companies. Second quarter earnings for a group of 20 companies were 34 percent below the 1981 second quarter. Five international companies averaged a 51 percent decline, while the 15 domestics averaged 11 percent. Earnings for the full six months were 31 percent below last year, with the internationals down 44 percent and the domestics down 15.

Another concern of many jobbers is a growing strain in their relationship with their suppliers. Some of the reasons are reduced functional discounts, tightened credit terms and the elimination of hauling allowances. In frustration, some have called for the return of government.

All of us -- suppliers and jobbers alike -- had to struggle under government control. Ten years of federal price and allocation controls put a freeze on many activities. They curtailed normal experimentation and progress, so a logjam of necessary changes built up. And since decontrol, the marketplace has been subjected to the pressures that resulted from the logjam being broken.

In addition, today's economic environment has placed additional financial burdens on us all. The recession is ending but interest rates are still very high. Some suppliers now assess a surcharge for credit card use. Some suppliers have eliminated credit cards altogether. Others are giving cash discounts. And still others are combining several of these techniques.

Maintaining a credit card program is expensive and there is no question that the credit card customer should pay for the privilege of using credit. The question is "HOW?" The answer so far seems to vary by company. Various methods to recover or eliminate the cost of credit have been proposed or adopted. Some are unacceptable to marketers, others to their suppliers.

Union has not made any change. We plan to continue our card. But I do not think that all other policies should be branded unfair and fought in the legislatures and the courts. From what I hear, some of these experiments seem to be working. Shouldn't we all watch and see if things can be done better in a way that benefits all of us?

In regard to so-called predatory or anti-competitive practices, state laws and federal regulations under the Sherman Act, Clayton Act, and the FTC Act already provide effective protection. The extent of existing protection should be obvious in any analysis of jobber market share, profitability, outlet ownership. Regulatory systems foster anti-competitive situations. At least in the free market they can be straightened out.

During this period of uncertainty, the best jobbers will emerge stronger and more profitable than before. Market conditions lead them to make changes in their operations faster and more forcefully than the marketing divisions of integrated oil companies can. With the shift toward self-serve gasoline sales and the growth of convenience store tie-ins, the historic advantage of jobbers' flexibility and inventiveness will lead to new opportunities.

Consolidations to form one strong company may be a solution for some. Just as there are fewer producers, refiners and retailers this year than last, so may there be fewer but stronger jobbers in the future.

Compatible businesses may be another solution. Ten years ago, few jobbers considered the retail food business. Today, most are in it. Ten years from now, many will have other compatible business not yet explored.

At Union Oil, more than 75 percent of the gasoline in our Eastern Region is sold by jobbers. We foster and encourage open communication with those representing our products in the marketplace. Understanding each other's needs and plans is the foundation of our successful jobber/supplier relationships. Suppliers and jobbers generally have common goals. On most occasions we have been united in the philosophy of how the free enterprise system works best. We think that that relationship should continue.

Jobbers are an important link in the distribution chain of this vital industry. Like the entire petroleum industry, they have shown the strength and ability to respond to change. If they rely on government to guarantee their peace of mind, they will lose much of that strength and ability.

Thank you.

LOWELL WEICKER, JR., CONN., CHAIRMAN
BOB PACKWOOD, OREG.
JOHN G. TOWER, TEX.
S. I. HAYAKAWA, CALIF.
RUDY BOSCHWITZ, MINN.
MARK GRUENING, ALASKA
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CARL LEVIN, MICH.
PAUL E. TSONGAS, MASS.
ALAN J. DIXON, ILL.
ROBERT J. DUTCHIN, STAFF DIRECTOR
R. MICHAEL HAYNES, CHIEF COUNSEL
ALAN L. CHVOTKIN, MINORITY CHIEF COUNSEL

United States Senate
COMMITTEE ON SMALL BUSINESS
WASHINGTON, D.C. 20510

November 1, 1982

Mr. T.W. Matthews
Vice President, Marketing
Union 76 Division: Eastern Region
Union Oil Company
1650 East Golf Road
Schaumburg, Illinois 60196

Dear Mr. Matthews:

Thank you for your letter, and the statement of Union Oil Company for the hearings the Committee held in Chicago on current petroleum marketing practices, and their impact on small business. On behalf of Senator Dixon and the Senate Small Business Committee, I appreciate Union Oil's willingness to submit a statement for the record. It will be included in the Committee's proceedings.

If this office can be of any further assistance, please do not hesitate to contact me.

Sincerely,

ALAN CHVOTKIN
Minority Chief Counsel

cc Sen. Dixon

EXXON COMPANY, U.S.A.
POST OFFICE BOX 2180 · HOUSTON, TEXAS 77001

MARKETING DEPARTMENT
R.C. KIDDOO
VICE PRESIDENT

November 11, 1982

The Honorable Alan J. Dixon
United States Senate
4203 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Senator Dixon:

Though Exxon is not engaged in retail gasoline marketing in Illinois, we recognize the importance of the Small Business Committee hearing held on October 12 and the impact it can have nationally. For that reason, I would like to make clear Exxon's position on some of the issues raised at the hearing. While it is impossible to address all the allegations and grievances made by representatives from various jobber and dealer organizations, I respectfully request that the attached statement which addresses Exxon's dealer rent program, the specifics of our discount for cash program, and our policy for establishing jobber, dealer, and company-operated station prices be included in the October 12 hearing record.

As many would agree, the petroleum industry clearly is in a period of active transition. The market is adjusting from almost a decade of artificial federal controls which frustrated the natural evolution of market change. In addition, the unanticipated dramatic decline in demand for petroleum products, in combination with adequate supplies, has stimulated intense competitive activity. Marketers at all levels of the distribution chain are responding to these factors by adjusting their marketing practices. The price controls and regulated markets of the '70s, which insulated some marketers from market pressures, have led some marketing organizations to now charge that refiners are using unfair practices to the detriment of dealers and/or jobbers. Jobbers claim that suppliers are favoring the dealer class of trade at the expense of jobbers. On the other hand, dealers allege that they cannot compete fairly against jobbers and independent marketers suggest that they can no longer compete with branded suppliers' jobbers and dealers. Clearly, not all groups can be simultaneously benefited and injured as a result of supplier practices.

Exxon supports your view that we do not really need more laws to control our business, and that what is needed is a marketplace that works well. Throughout the hearing, you and others stressed the importance of communications between suppliers and their customers. I am proud of Exxon's past record and current policy of maintaining open communications with all our customers. Exxon's senior management has, as an example, been an active participant at the National Oil Jobbers Council's (NOJC) national conferences and at the jobbers' statewide meetings. Recently, I have personally met with the leadership of the NOJC and with the Society of Independent Gasoline Marketers Association. Internally, we sponsor separate dealer and jobber advisory councils and hold regularly scheduled meetings with each of these groups. We believe these communications have been quite productive in fostering an understanding of Exxon's and its customers' mutual concerns and business objectives.

As part of the communications process, you urged the major oil companies to be "up front" in disclosing to their dealers the likely amount and timing of future rent increases. Exxon dealer leases, which are for a three-year term, specifically provide the dealer with the maximum amount that Exxon will increase the rent during the second and third year of the lease term. The maximum increase is set at 20 percent and is negotiable if the dealer provides evidence that the business value of the store does not support the rent objective.

I hope you will find these comments useful as you complete your evaluation of the petroleum products marketplace. We would be happy to meet with you or any members of your staff if you would like to discuss these issues further.

Sincerely,

RCK:dc

Statement of Exxon Company, U.S.A.
to the
Committee on Small Business
United States Senate
Washington, D.C.
Concerning October 12, 1982, Hearing
on Current Petroleum Marketing Practices
and Their Impact on Small Business

This statement is submitted by Exxon Company, U.S.A. for the October 12, 1982, hearing record on Current Petroleum Marketing Practices and their Impact on Small Business.

Three issues of major concern raised in the October 12 hearing will be addressed: supplier/lessee dealer rent practices, major oil company credit card merchant's fees, and refiner/supplier pricing practices.

SUPPLIER/LESSEE DEALER RENT PRACTICES

Issue

Some dealer associations have alleged that supplier/landlords are using excessive rental increases as a means of forcing dealers out of business, presumably with the intent of securing the service station as a company-operated facility.

Background

Service station rents were restricted by the Economic Stabilization Act of 1971 and were frozen at their May 15, 1973, levels by the Federal Energy Administration. This FEA-imposed rent control ended December 31, 1975, when a Federal Court of Appeals ruled that the FEA lacked the authority to control service station rents.

After the extended rent freeze from May of 1973 through December 1975, service station rents did not increase excessively although they did rise as would be expected. Since 1976, Exxon dealer rents have increased at a rate of 10 percent per year, slightly below the rate of inflation for the same period. Even with a 10 percent increase, Exxon's current return on fair market value of all service station properties is still well below minimum returns generally required by real estate investors.

Exxon relies heavily upon independent dealers for the distribution of its motor fuel and would have nothing to gain by setting rents at unreasonable levels. To the contrary, Exxon strives to negotiate equitable rents and to encourage the success of its dealers. Our strategy, uniformly applied to all dealers, is to achieve an acceptable competitive rate of return, after maintenance and taxes, on the market value of our real property leased to dealers. If the income earning

capacity of the location is insufficient to support market value rents, rents are negotiated downward to reflect the correct business value of the property. Currently, Exxon dealer rents are, on average, at 50 percent of what would be considered a competitive rate of return based on market value.

Some have expressed concern that dealers are not given reasonable notice as to when and what future rent increases will be. Exxon dealer leases, which are for a three-year term, specifically provide the dealer with the maximum amount that Exxon will increase the rent during the second and third year of the lease term. The maximum increase is set at 20 percent per year.

If a dealer disagrees with the rent Exxon proposes to charge, he may make his concerns known to his Exxon sales representative and district management and attempt to negotiate a mutually satisfactory rental. If a dealer is unable to reach accord over the rental issue with local district management, he may seek a review with Exxon's region management and, if necessary, with Exxon's Headquarters management. Lease agreements also provide the dealer with the opportunity to resolve rental issues through an appraisal process. Exercising the appraisal procedure would involve both the dealer and Exxon securing an independent appraisal of the market value of the property. In most cases, the average of the two appraisals would serve as the basis for the new rent. Additionally, a dealer may terminate a lease agreement at any time upon written notice to Exxon.

Position

Federal legislation designed to solve alleged rental abuses is unnecessary because the federal Petroleum Marketing Practices Act (PMPA) provides branded dealers with legal protection against discriminatory rental increases. Under PMPA, if the lessor/supplier and lessee/dealer are unable to negotiate a mutually acceptable rental, and as a result, the lease agreement is not renewed, the lessee/dealer can file suit in federal court. The law places the burden of proof upon the lessor/supplier to show that the offer to renew at the new rental rate was made in good faith and in the normal course of business. Additionally, the lessor/supplier must prove that insistence on the new rental was not used as a means of forcing the nonrenewal in order to terminate the franchise relationship.

Exxon's service station rental objective is to set rentals at each facility at a level that will provide a reasonable economic return on the current value of the property and also recover property taxes and maintenance and repair expenses. Rentals are negotiated individually and adjustments are made to reflect competitive business conditions. If a dealer presents bona fide evidence during these negotiations that the business or property value will not support the proposed rental, Exxon will seek to negotiate a rental that is acceptable to the dealer.

The free market should be permitted to maintain reasonable and equitable rents for service station properties. Even during the periods of restricted gasoline supplies, competition for good dealers places a natural restraint on the level of service station rentals. Furthermore, service station rents generally reflect the business value of the property, and therefore are set at levels that dealers can afford to pay without reducing their incomes below attractive levels.

CREDIT CARD MERCHANT'S FEES

Issue

Some dealers and jobbers claim that oil companies have instituted credit card ticket processing fees in order to shift the cost of credit from the oil company to the retailer, and that any initial reduction in wholesale prices to offset the merchant's fee will be added back in at a later date.

Background

Historically, Exxon attempted to recover the costs of credit card programs in the wholesale price of gasoline, and service station dealers and distributors passed this cost along to their customers. Under this system, dealers and distributors made the same gross profit on credit and cash sales. Thus, the credit and cash customer shared the cost of the retail credit system, or said another way, the cash customer subsidized the credit customer.

The cost of Exxon's credit card program in 1972 was about 2.0¢/gal. Because of rising gasoline prices and dramatically higher interest rates, the net cost is now in the range of 4-6 cents per credit gallon. Finance charges on late payments and extended credit terms are paid by only about 20 percent of Exxon credit card customers. In 1981, these charges offset less than 15 percent of our total credit card expenses.

The cost of credit is simply too high to be passed along in the wholesale price of gasoline and still allow our dealers and distributors to be competitive in the marketplace for the cash customer.

Consequently, Exxon has looked for equitable ways to place the costs of credit with the credit user. Three alternatives have been considered.

- An annual fee to credit card holders is the simplest credit cost recovery method, but research indicates a substantial loss of credit card holders would occur.

- A transaction fee, which would involve assessing the card holder a charge each month based on a cents per ticket amount or a percentage of the purchase is the second alternative. However, legal constraints prevent a transaction charge from being applied in enough states to make its widespread use practical.

- Discount for cash. Exxon conducted pilot discount for cash programs in several markets and test results indicated strong consumer and dealer acceptance of the program.

Exxon is now encouraging dealers and distributors to offer discounts for cash. This is accomplished by initiating a merchant's fee charged to the dealer or distributor for credit card tickets submitted for reimbursement. At the same time, wholesale buying prices for gasoline have been reduced by an amount sufficient, on average, to offset the merchant's fee.

Since the dealer segment has a higher percentage of credit card sales than the distributor segment, their buying price reduction had to be greater than that of

distributors in order to offset the merchant's fee. In both cases, however, the reduction was sufficient to offset the merchant's fee expected to be charged to that class of customers.

Retailers can pass along the price reduction to their cash customers in discounted price while asking the credit card customers to pay a price which includes the cost of credit.

By offering the lower cash price, dealers, including those served by branded distributors, can compete more effectively in the marketplace for cash customers while continuing to offer credit customers the convenience they seek for a price that is commensurate with the credit service they receive.

Currently, 75 percent of Exxon dealers and 42 percent of our motor fuel resellers are participating in the Discount for Cash program. Since implementation of the program, customer complaints have numbered less than 1 percent of Exxon credit card holders.

Position

Credit card merchant's fees are equitable to dealers and distributors as well as to cash and credit customers. The cost of the credit card has been shifted from all customers to only those customers who want to avail themselves of the convenience of credit service. Legislation to prevent credit card merchant's fees would require the implementation of a less desirable means of competition for the cash customer and could result in the elimination of the credit card. Consumers and marketers at all levels of distribution would be hurt by such legislation.

Exxon has no intention of adding back the initial wholesale price reduction made upon instituting the merchant's fee. To do so would defeat the whole purpose of the discount for cash concept which is to provide a wholesale price that allows our retailers to compete more effectively for the cash customer.

Exxon believes that all credit cost recovery options (surcharges, transaction fees, annual fees and merchant's fees) should be freely available, and the competitive marketplace should determine which is the best method of placing the cost of credit on the credit user.

WHOLESALE PRICING PRACTICES

Issue

Jobber groups claim that majors have unfairly reduced the so called "jobber differential" by raising the branded Distributor Buying Price (DBP) on motor gasoline in relation to the Dealer Transport Truck Price (DTT). Dealers claim they cannot compete effectively against jobbers who receive a discount from the DTT that exceeds the expense associated with performing the wholesale function in the marketplace.

Background

In the competitive climate prior to price controls, Exxon established DTT motor gasoline prices by geographical areas. These prices were based on costs and

competitive market forces, including other suppliers' prices in the same trading area. Exxon individually negotiated DBP motor gasoline prices based on competitive conditions in various distributor market areas and not on a fixed differential versus DTT. Federal price controls in 1973 froze the difference between the DBP and DTT. Now that we are again operating in a market free of controls, Exxon's DBP and DTT motor gasoline prices are determined by relevant market conditions.

Position

Exxon is not involved in predatory pricing or any pricing practice aimed at harming distributors or dealers.

There is no fixed relationship between the DTT and the DBP, though they are related in terms of having an effect upon one another in the marketplace. Exxon does not guarantee a specific differential between the two prices, but sets its DBP and DTT prices in response to competitive conditions. Except during price control periods, the price difference has varied with competitive pressures at different levels in the distribution chain. In addition, the difference has changed as Exxon has altered its approach to charging for the services included in the price, such as credit cards.

Distributor buying prices are primarily influenced by rack prices. If the price to a major brand distributor is too high relative to the rack price, he cannot compete. If it is too low, he is in a position to assume the rack function and profitably broker product as long as his supplier makes it available.

While not guaranteeing the branded distributor a certain differential, Exxon does offer a DBP that recognizes competitive prices and the distributor's--as well as Exxon's--economic needs. Dealer prices are established to allow an Exxon dealer to be competitive with major brand service station competition.

COMPANY-OPERATED STORE PRICING

Issue

Dealer and jobber groups claim that retail prices at major brand company-operated service stations are predatory to the extent that dealers and jobbers cannot compete and still maintain a satisfactory margin.

Background

The DOE Title III Study confirmed major refiners' assertion that there is no evidence of refiners subsidizing the sale of gasoline at retail.

Exxon now company-operates less than 600 stores or less than 7 percent of all branded Exxon outlets, contrasted with 3,649 stores or about 13 percent of the branded chain in 1970.

Position

For its company-operated stations, it is Exxon's practice to post retail prices at or above the retail prices of key competitors in the trading area of the station. By following this practice, Exxon does not use its company-operated stations as a means of controlling the retail prices of others. To the extent a dealer does not consider the prices of key competitors in the trade area when establishing his prices, the dealer's price may not necessarily coincide with the retail prices at an Exxon company-operated station in the same trade area.

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OF COUNSEL
RAYMOND WALLENSTEIN
A PROFESSIONAL CORPORATION

November 18, 1982

The Honorable Lowell Weicker
United States Senator
Russell Building
Washington, D. C. 20510

Dear Senator Weicker:

Enclosed please find copy of letter dated November 17, 1982 addressed to Paul J. Richmond, Esq., in-house counsel for Atlantic Richfield Company, concerning our client Cox Oil Company, Inc.

I hereby request that the enclosed letter be made a part of the record of the Small Business Committee's proceedings.

Sincerely yours,

DAVID LAUFER

DL:dh
enc.

cc: Alan Chvatkin, Esq. (with enclosure)

LAW OFFICES
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ONE CENTURY PLAZA, SUITE 2600
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LOS ANGELES, CALIFORNIA 90067

November 17, 1982

Paul J. Richmond, Esq.
Atlantic Richfield Company
515 South Flower Street
Los Angeles, California 90071

Re: Cox Oil Company, Inc. ("Cox")
Supply Levels and Payment Terms

Dear Mr. Richmond:

This letter is being written to you in an effort to encourage Atlantic Richfield Company ("Arco") to engage upon a reasonable course of conduct with respect to its franchisees, notwithstanding the unlawful and unilateral changes in the franchise relationship that it has made with each of its franchised wholesale distributors.

On July 14, 1982, David Laufer of this office wrote to Mr. Evan A. Santell, Esq., Arco's in-house counsel, demanding that Arco immediately resume the delivery of motor gasoline to Cox in the same amounts as were delivered during the period of April 1, 1981 through April 30, 1982. This letter was written as a result of a determination unilaterally made by Arco in or about June, 1982, to cut the volume of motor gasoline supplied to Cox by <u>over 50%</u>.

The determination by Arco to cut the volume of motor gasoline supplied by it to Cox was made with almost no notice whatsoever to Cox. Effectively, Arco destroyed 50% of the business being conducted by Cox. Both prior to and in connection with the limitation on volumes of motor gasoline supplied to Cox, Arco removed the hauling allowance, changed credit and payment terms, and reduced the distributor discount offered to Cox from the dealer tank wagon price.

Prior to the reduction in the volume of motor gasoline supplied to Cox, Cox had a line of credit in the amount of $950,000.00, which line of credit was fully secured with letters of credit in favor of Arco. Having reduced the

volume of gasoline supplied to Cox by more than 50%, and thereby destroying an equal amount of business conducted by Cox, Arco made demands that the outstanding invoices immediately be reduced notwithstanding the fact that the business upon which Cox relied in order to make payments had been reduced by 50%.

Cox has exerted a yeoman's effort in reducing the outstanding invoices and has reduced same to the sum of approximately $450,000.00. In connection with this, and in recognition of the continued creditworthiness of Cox, Arco has permitted Cox to reduce the letters of credit available to Arco to the amount of $350,000.00. At no time has Cox in any way evidenced any security or credit risk to Arco.

Arco has now apparently taken a position which will complete its efforts to completely destroy Cox. Having removed the source of revenue utilized to make payments for motor gasoline purchased from Arco, Arco now demands that Cox immediately bring all outstanding balances current or it will call the $350,000.00 letter of credit. Of course, Arco recognizes that in the event it calls the letter of credit, Cox will immediately be required to commence payments of principal and interest to its bank to repay the $350,000.00. Already operating under the stress of the changes unilaterally imposed by Arco, Arco now threatens to place on the back of Cox additional finance charges. These finance charges will effectively preclude the ability of Cox to make payments to purchase Arco motor gasoline. Having succeeded in this effort, I am confident that Arco will then seek to terminate the franchise, arguing that Cox is not purchasing the minimum volume requirements specified in its franchise agreements.

Step by step, Arco has made it impossible for Cox to financially operate within the credit and payment terms unilaterally demanded by Arco. This has been imposed upon Cox, notwithstanding the fact that it has never been a credit risk in any way to Arco. Arco's conduct with respect to Cox is a dramatic example of the efforts of Arco to convert the wholesale trade to "100% retail". Its most recent threat is a blatant violation of the spirit and intent of the preliminary injunction issued by the Honorable John L. Cole, who issued the order in an effort to prevent Arco from succeeding in its efforts to "diminish or terminate Arco's wholesale distributors in an effort to build up their retail sales." (Statement of the Honorable John L. Cole made in connection with the issuance of the preliminary injunction).

Arco's conduct is an express violation of the provisions of California Business and Professions Code Section 20999.1. California Business and Professions Code Section 20999(j) defines 'contract', for supply purposes, as follows:

> "For supply purposes, delivery levels during the same month of the previous year shall be prima facie evidence of an agreement to deliver such levels."

Arco's termination of supply and delivery levels as existed during the period of April 1, 1981 through April 30, 1982, when applied in connection with the change in credit terms, hauling allowance, payment terms, and distributor discount, stand on the brink of succeeding in destroying Cox. This goal will be carried out under the claim of "credit and payment terms", by threatening to call the $350,000.00 letter of credit securing outstanding invoices.

At this point in time, there can be no dispute as to Arco's motivation with respect to its recent demand. I am requesting that you, as counsel for Arco, personally review this litigation and impress upon your client the dramatic impact that its threatened conduct will have on this litigation in view of the Honorable John L. Cole's concerns that Arco has and threatens to continue to take steps to diminish or terminate Arco distributors to build up its own retail operations. Unless you can establish a serious credit threat, it is hereby demanded that:

1. Atlantic Richfield Company refrain from placing any calls or demands upon the letter of credit.

2. Atlantic Richfield Company immediately restore the volumes of motor gasoline previously delivered to Cox Oil Company during the months of April, 1981 through April, 1982.

3. Atlantic Richfield Company comply with the preliminary injunction with respect to Cox Oil Company, and restore the payment terms, the modification of which have been determined to be unlawful and improper by the Honorable John L. Cole, Judge of the Superior Court.

Your immediate attention to this matter is requested. Because of the threats of Arco to call the letter of credit on or after November 17, 1982, you are requested to immediately contact Arco employees to stop all such conduct

until you have had a sufficient opportunity to review this matter. I would further invite you to contact me directly so that we may discuss this matter in an effort to avoid the necessity for further applications to the Honorable John L. Cole to prevent "conduct undertaken...to diminish or terminate Arco's wholesale distributors in an effort to build up their retail sales." Because of the immediacy of this matter, this letter is being hand delivered to you. Please contact me as soon as you have received this letter so I may determine how best to proceed to protect the interests of my client, Cox Oil Company.

Very truly yours,

Kenneth P. Roberts

KENNETH P. ROBERTS

KPR:dh:B

cc: Richard C. Morse, Esq.
Donald C. Smaltz, Esq.
The Honorable Lowell Weicker, Chairman
Senate Small Business Committee

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2029 CENTURY PARK EAST
LOS ANGELES, CALIFORNIA 90067

November 16, 1982

The Honorable Lowell Weicker
United States Senator
Russell Building
Washington, D. C. 20510

Re: Response to the Statement of
James D. Kowal, Manager, C&D Sales
Arco Petroleum Products Company
October 12, 1982

Dear Senator Weicker:

I file this statement on behalf of California Arco Distributors, Inc. ("CADI"), a mutual benefit corporation, composed of Arco branded distributors doing business in the State of California, in response to the statement to your Committee of James D. Kowal, Manager, C&D Sales, Arco Petroleum Products Company, of October 12, 1982.

CADI respectfully requests that this response be made a part of the record of the Committee's proceedings. Cadi incorporates in this response my letter dated August 23, 1982 addressed to William Kieschnick, President, Atlantic Richfield Company (enclosed herewith).

In 1972, there were approximately 2,000 Arco wholesalers doing business in the United States. In October, 1982, there were approximately 176 Arco wholesalers doing business in the United States. In December, 1980, Arco's wholesale class of trade sold approximately 70% of Arco's sales of motor gasoline. In October, 1982, Arco's wholesalers sold less than 30% of Arco's annual motor gasoline sales.

CADI believes that these Draconian changes to the jobber class of trade were effected by unlawful means. Mr. Kowal concedes in his testimony before your Committee tnat "... a dealer in a price zone...might pay a lower price on a particular day for a particular load than a distributor that is in the same State,..." Id. at 124, lines 1-11.

In addition to actual price discrimination which is adversely impacting upon the wholesale class of trade, CADI believes that your Committee should investigate some of the following practices:

1. Arco's plans to convert lessee dealer operations to company-operated stations to be operated by Prestige Stations, Inc., Arco's wholly owned subsidiary.

2. Arco's plans to eliminate the wholesale class of trade.

3. Arco's arbitrary allocation system designed to reduce the volume of gasoline sold to the wholesale class of trade, while at the same time increasing its sales to the retail class of trade.

4. Arco's termination of distributor contracts.

5. Arco's reduction and/or elimination of credit terms.

6. Arco's elimination of the hauling allowance.

7. Arco's reduction in the distributor's functional discount.

8. Arco's coordinated withdrawal from marketing areas simultaneously with the withdrawal from different marketing areas by other major refiners.

9. Arco's industry role of encouraging the reduction of refining capacity and its effect on competition.

As disclosed in the enclosed statements of James Morrison, President, Arco Petroleum Products Company, and George H. Babikian, Vice President of Marketing, Arco Petroleum Products Division, Arco has conceded that its expansion of its retail sales has been accomplished at the expense of the wholesale class of trade. Mr. Babikian also concedes that Arco has put some very tough requirements on the wholesale class of trade. Mr. Babikian concluded that: "It would be nice to get it 100% retail."

In conclusion, we believe Arco's conduct is unlawful and warrants a full-scale investigation into what I believe is

a coordinated effort among the major refiners to eliminate the wholesale class of trade as a means of increasing short-term profitability.

I also believe that the evidence gathered so far demonstrates that Arco has violated the consent decree in that action entitled United States of America v. The American Oil Company, et al, United States District Court for the District of New Jersey, Case No. Civil 370-65, entered August 12, 1972 (copy of Final Judgment enclosed).

Respectfully submitted,

David Laufer

DAVID LAUFER,
Attorney for CADI

DL:dh:C
encs.

cc: Alan Chvatkin, Esq.

LAW OFFICES
SHAPIRO, LAUFER, POSELL & CLOSE
A PROFESSIONAL CORPORATION
ONE CENTURY PLAZA, SUITE 2600
2029 CENTURY PARK EAST
LOS ANGELES, CALIFORNIA 90067

August 25, 1982

Mr. William Kieschnick, President
Atlantic Richfield Company
515 South Flower Street
Los Angeles, California 90051

Re: Complaint of California Arco Distributors, Inc. Against Atlantic Richfield Company and its Officers, Directors and Employees

Dear Mr. Kieschnick:

You recently said:

> "Arco believes that to serve its owners, employees and society well it must have a consistent and coherent set of values on which it bases all of its policies and actions. One of these values is to maintain high standards of corporate and individual integrity. The striving for integrity should be unequivocal."

I write to you on behalf of my client, California Arco Distributors, Inc. ("CADI"), a non-profit mutual benefit corporation1/ whose members are Arco branded distributors doing business in California.

I have been authorized to file a complaint for damages and injunctive relief against Atlantic Richfield Company, its officers, directors and employees (hereinafter referred to as "ARCO") and to request that you, consistent with your

---

1/ CADI has been formed pursuant to the provisions of Cal. Corp. Code § 31220, which provides in relevant Part:

> "It shall be a violation of this division for any franchisor, directly or indirectly, through any officer, agent or employee to restrict or inhibit the right of franchisees to join a trade association or to prohibit the right of free association among franchisees for any lawful purposes. . . . "

public statement, order a halt to the enumerated unlawful, unfair and deceptive business practices, all causing CADI members irreparable injury.

This letter shall discuss the history of these grievances and ARCO's unlawful, unfair and deceptive business practices.

HISTORY REPEATS ITSELF

In 1973, ARCO, in consultation with other major integrated refiners,2/ proposed a plan to its Board of Directors designed to eliminate Commission Agents.3/

ARCO'S MOTIVE

ARCO's motive in seeking the elimination of its Commission Agents is set forth unequivocally in Program AFE, as follows:

> "This is the Program AFE and supporting material authorizing proceeding to iden-

---

2/ On April 5, 1972, Louis J. Reams Jr., ARCO's Executive Vice President, told a group of stockbrokers:

> "In reaching an approved downstream marketing rate of return, we face two major problems. The first 'I' is 'inflation', which in recent years has reached an extreme high rate, and has a terrific effect on the inefficient distributor. The second 'I' is the 'independent'. By this I mean that there are gasoline distribution systems that are far more efficient than ours. . . that can deliver products into the customers' tanks measurably cheaper than we can. We have now entered the stage of the market where the lowest cost distributor is setting the price structure. The price structure no longer responds to the inflated cost of the major operations." See California Attorney General Evelle J. Younger in "Coordinated Pre-Trial Proceedings in Petroleum Products Antitrust Litigation" MDL-150WP6, January 10, 1979, p. 107.

3/ ARCO's proposed plan is entitled "Atlantic Richfield Company, Products Division, Bulk Plant Profitability Project Program AFE", prepared by W. L. Warrick and approved by ARCO's Board of Directors in 1973. J. S. Morrison approved the project as the department manager. Hereafter, the Bulk Plant Profitability Project Program shall be referred to as "Program AFE". A copy of Program AFE is submitted herewith.

> tify those Commission Agent Operations which would reflect a Rate of Return improvement by elimination in favor of direct delivery by Atlantic Richfield Company.
>
> This requires approval by the Board of Directors and a decision should be made prior to the end of the year.
>
> W. L. Warrick"
>
> (emphasis added)

The success of Program AFE was stated by Mr. Warrick to be dependent upon the following factors:

A. Inability of Commission Agents to find alternate suppliers after being terminated by ARCO.

B. Petroleum industry cooperation in not taking on terminated ARCO Commission Agents.

C. Governmental non-intervention; and

D. Overcoming legal obstacles.

ELIMINATION OF ALTERNATE SUPPLIERS

W. L. Warrick's research and extensive industry consultation verified little danger of other integrated refiners taking on any of ARCO's eliminated Commission Agents because:

> "The industry as a whole has recognized the profit improvement potential in elimination of the Bulk Plant/Commission Agent system and such a trend is now underway. . . . "

W. L. Warrick assures ARCO's Board of Directors that ARCO's plan must be implemented during the period of shortage to avoid "the risk of loss of desirable volume" and also establishes that the risk of "supplier switching" is minimized due to the overall acceptance by the petroleum industry of "the profit improvement potential in elimination of the Bulk

Plant/Commission Agent system." W. L. Warrick further assures the Board of Directors that the timing is now as "such a trend is now underway."

W. L. Warrick further assures ARCO's Board of Directors that ARCO will not lose any volume because:

> "Sales volume should remain the same for the foreseeable future because of product allocation. This will effectively prevent the gain of desirable volume or the loss of undesirable volume by ARCO as well as major competitors."

Having assured ARCO's Board of Directors that alternate suppliers will be unavailable because of "product allocation", W. L. Warrick next analyzes industry cooperation and documents no risk of loss to ARCO because of confirmed petroleum industry parallel action.

INDUSTRY COOPERATION

Any past efforts to eliminate ARCO Commission Agents were unsuccessful because ARCO's competitors took on terminated Commission Agents, thereby resulting in a loss of volume by ARCO. W. L. Warrick says:

> ". . .[a]ny previous attempts to improve profitability by substituting a completely direct Delivery System for the existing Commission system simply resulted in the former Commission Agent performing the same function for a competitor. Because of the Commission Agent's local relationship with the customers he was usually able to persuade a great majority of them to purchase from whichever competitor he was then representing resulting in a serious loss in volume and overall revenue." (emphasis added)

The failures of previous attempts to eliminate Commission Agents is not now troublesome to W. L. Warrick because:

> "The industry as a whole has recognized the profit improvement potential in elimination of the Bulk Plant/Commission Agent system and such a trend is now underway. . . ."

ARCO's Board of Directors is, therefore, assured that industry cooperation is now available, and the project to eliminate Commission Agents must go forward now. W. L. Warrick further warns:

> "Project must be completed during period of product tightness to prevent loss of desirable volume."

The risk analysis section of Program AFE further warns ARCO's Board of Directors of the following problems:

> "Project could be interrupted by governmental intervention on behalf of Commission Agents.
>
> "Commission Agents as a class or individually could attempt to enjoin ARCO from proceeding with project.
>
> "Proof of economic justification by ARCO in court might necessitate revealing sensitive information such as sales volume, internal values, etc."

ASSURING GOVERNMENT NON-INTERVENTION

To convince ARCO's Board of Directors that the Government would not intervene on behalf of the Commission Agents, W. L. Warrick and his staff constructed an elaborate scheme designed to inform governmental agencies of the need to eliminate Commission Agents because the bulk plants from which they were operating were not meeting environmental standards.

ARCO's public stance, therefore, would be portrayed as complying with governmental requests to eliminate bulk plants that do not meet EPA and OSHA standards.

ARCO's Bill Duke assumed the role in Washington as congressional contact in charge of "Congressional Contacts on Bulk Plant Closings."

Bill Duke on August 7, 1975 reported to James S. Morrison, the manager who had submitted Program AFE for Board of Director approval, as follows:

"Mr. Gendron suggested that I forward a copy of the attached list of key members of the House of Representatives and of the Senate for your information in relation to the decisions made to proceed with the bulk plant closings.

"Hopefully, we can ease the usual trauma in Congressional offices somewhat by explaining our actions to Congressional representatives simultaneously with -- or prior to -- the company's official announcement to the bulk plant operators involved. In some instances this should be able to reduce the flak from at least the key members involved.

"The attached list includes most, but not all, of the members who hold positions of leadership or influence, or who by virtue of their swing positions on critical committees, are crucial to any legislative program involving the energy industries.

"If any of our closing decisions affect these districts, we would be very anxious to attempt to get our story told before the fact.

"In an attempt to further narrow the focus, I have taken the liberty of placing plus signs in front of the members who are of special concern to us at this time. As noted, the asterisks indicate members who represent a substantial number of ARCO employees.

"Any advance notification of actions affecting these districts would be very much appreciated. We will coordinate the timing with people in your department to assure that no untimely leak occurs."

Bill Duke's memorandum to James S. Morrison was also sent to J. W. Gendron, C. A. Walsh, E. E. Clark, J. Kowal, R. E. Herzog, P. D. Helmig and the Washington staff. It is reported that these people implemented Program AFE and received promotions within the past three years for their services.4/

4/ A copy of Bill Duke's memorandum and attachment is submitted herewith.

ARCO's Congressional program5/ on bulk plant closings reminds one of the actions of Rockefeller in the early days of the petroleum industry. In Alistair Cooke's book, "America -- Money on the Land," he says:

> "Rockefeller built a monopoly by means both gentile and ruthless, and it was rudely hinted that he had in the palm of his hands the best state legislators and United States Senators that money could buy. He not only got the railroads to give him secret low rates because of the colossal business he could throw their way; they secretly granted him a bonus from the regular rates that all the small producers had to pay. When the arrangement leaked, it provoked a national outcry. But Rockefeller rode out the railroad scandal by the well-known expedient of sitting back and letting himself become a beneficiary of the lapse of time." Id. at 259.

While Bill Duke was anxious to "assure that no untimely leak occurs", the facts are that this premeditated effort to eliminate ARCO Commission Agents in the guise of environmental protection failed because it violated the Emergency Petroleum Allocation Act of 1973, 15 U.S.C. § 751 et seq.

5/ It was established during the course of litigation [ARCO v. FEA, 556 F.2d 542 (T.E.C.A. 1977) and Spinetti v. ARCO, 552 F.2d 927 (T.E.C.A. 1976)] that ARCO's scapegoats -- OSHA and EPA -- would not corroborate the need to close bulk plants. Also, while ARCO was "anxious . . . to get [its] story told before the fact," the facts established that OSHA and EPA were not obstacles to bulk plant operations. At any rate, the Commission Agents were willing to bear the expense of bringing any bulk plants which were in violation of law into compliance with all applicable laws. Indeed, as part of the settlement, infra, ARCO distributors did purchase bulk plants and did make all necessary improvements to bring them into compliance with the law.

OVERCOMING LEGAL OBSTACLES

W. L. Warrick's study simply comes to the conclusion that undisclosed legal opinions obtained from ARCO's Legal Department provide:

> "There is not now nor has there been any valid legal objection to the replacement of the Commission Agent system with the Direct Delivery system, . . . however, we are, under product allocation, obliged to continue to serve all existing customers. This will effectively prevent our complete withdrawal from certain classes of trade or geographical markets until such time as product allocation ceases. Product allocation will also minimize the risk of loss of desirable volume during these next few years."6/ (emphasis added)

It is common knowledge in the legal community that once petroleum management makes a marketing decision, it is the role of in-house legal staff to justify such a decision by preparing "legal opinions". These "legal opinions" as to ARCO's plan to eliminate the Commission Agents are not attached to Program AFE; however, W. L. Warrick places ARCO's Board of Directors on notice of the following risks which presumably are raised in the "legal opinions":

> "Project must be completed during period of product tightness to prevent loss of desirable volume.
>
> "Project could be interrupted by govenment intervention on behalf of Commission Agents.
>
> "Commission Agents as a class or individually could attempt to enjoin ARCO from proceeding with project.

6/ Program AFE documents that as early as 1973 ARCO was planning to eliminate the wholesale class of trade -- distributors. To promise that Commission Agents would become "full line jobbers" was fraud.

> "Proof of economic justification by ARCO in court might necessitate revealing sensitive information such as sales volumes, internal values, etc."

It is clear that ARCO's Board of Directors was aware of the risks and legal obstacles in implementing the plan to eliminate Commission Agents. In-house counsel's rubber-stamping of management's decision failed to protect ARCO from the litigation which followed as predicted. See ARCO v. FEA, supra, and Spinetti v. Arco, supra.

AGENTS ALLIANCE LITIGATION

In 1973, ARCO Commission Agents doing business in the western United States formed "Agents Alliance, Inc." to oppose ARCO's action. This organization filed administrative complaints with the Federal Energy Office, protesting what were clear violations of the Emergency Petroleum Allocation Act of 1973, 15 U.S.C. § 751 et seq. ("EPAA"). As Congress had mandated that such laws were enacted to protect the competitive viability of existing petroleum marketers, it was clear that ARCO's proposed elimination of Commission Agents amounted to a blatant violation of these laws.

The administrative complaints were followed by at least four lawsuits, ARCO v. FEA, 556 F.2d 542 (T.E.C.A. 1977) and Spinetti v. Arco, 552 F.2d 927 (T.E.C.A. 1976). These decisions prohibited the elimination of Commission Agents on the ground that EPAA required ARCO to maintain its normal business practices with its Commission Agents.

Having been found by the Temporary Emergency Court of Appeals of having engaged in a willful violation of the energy laws, ARCO shifted gears and offered Agents Alliance, Inc. settlements on the following non-negotiable terms and conditions:

1. All lawsuits would be dismissed with prejudice.

2. All claims for treble damages on behalf of Commission Agents would be released.

3. All Commission Agents would be required to purchase bulk plants from ARCO.

4. All Commission Agents purchasing bulk plants from ARCO would be required to bring them up to all requirements of the law (ARCO estimated the expense at $6,000,000).

5. All Commission Agents would be converted to ARCO distributors and become "full line jobbers".

6. Each full line jobber would have to assume accounts receivable on those accounts in his marketing area previously borne by ARCO.

7. Substantial investments would have to be made by each converted Commission Agent in order to qualify for the receipt from ARCO of the discount of approximately $.03 from the dealer tank wagon price. This discount was established by ARCO based upon cost justification studies.

8. Each converted Commission Agent who became a full line jobber would receive a hauling allowance based upon the distance from ARCO's terminals to the bulk plant facility.

9. Each converted Commission Agent would receive a line of credit based upon his creditworthiness, his volume, his record of payment, and the amount of accounts receivable assumed.

10. Each converted Commission Agent would be put on a payment schedule whereby product purchases made during the preceding month would be paid by the tenth of the following month (10th prox.).

IMPLEMENTATION OF SETTLEMENT

The settlement was implemented as follows. Each Commission Agent executed a release and all necessary documents acquiring the right, title and interest to the bulk plant operation. Thereafter, each Commission Agent signed a standard form ARCO branded distributor contract presented on a take-it-or-leave-it basis, and commenced operation of his business pursuant to its arbitrary and unreasonable terms.

From 1977 to early 1981, during federal controls, ARCO maintained normal business practices. This is not to say that lawsuits were not filed in connection with ARCO's attempt to eliminate the competition of branded distributors. To be sure, such litigation did occur and ARCO, whenever it was able to fabricate a pretense for doing so, did eliminate the competition of ARCO distributors who sought to compete with ARCO in the sale of ARCO branded petroleum products to ARCO's direct lessee dealers.7/

A DESCRIPTION OF ARCO'S UNLAWFUL UNFAIR AND DECEPTIVE BUSINESS PRACTICES

CADI complains about each of the following practices and material modifications to the franchise relationship between ARCO and its distributors:

1. The unilateral withdrawal of hauling allowances in early 1981, which resulted in the inability of ARCO distributors to meet contract minimum volume purchases.

2. The imposition of an allocation system upon ARCO distributors in April, 1982, which limits the volume ARCO distributors are permitted to purchase, but permits ARCO lessee dealers and Prestige Stations, Inc. to purchase gasoline directly from ARCO without any volume restrictions.

3. The elimination of the approximately $.03 distributor margin (discount from dealer tank wagon) on April 15, 1982.

4. ON April 23, 1982, the material change in the credit terms from 10th prox. to the receipt of invoice.

5. The inability of ARCO distributors to purchase their contract volumes at terminals in closest proximity to their customers.

6. ARCO's taking over of customers formerly supplied by ARCO distributors.

7/ See Bulzan v. Atlantic Richfield Co., 602 F.2d 278 (T.E.C.A. 1980); and Newman Oil Co. v. Atlantic Richfield Co., 597 F.2d 275 (T.E.C.A. 1979).

7. ARCO's requirement that ARCO lessee dealers purchase ARCO products exclusively from ARCO.

8. ARCO's discriminatory pricing practices, which have resulted in lessee dealers receiving discounts from the dealer tank wagon price of as much as $.08 per gallon, which discounts are not passed along to competing ARCO distributors.

9. ARCO's practice of failing to provide the disclosure statements to ARCO's distributors, as required by Cal. Corp. Code § 31101(c).

10. ARCO's practice of imposing material modifications during the franchise term in violation of Cal. Corp. Code § 31101(d).

THE EFFECT OF ARCO'S ILLEGAL CONDUCT

In 1973, there were 1,664 ARCO branded wholesalers doing business in the United States. In October, 1981, ARCO reported to the California Department of Corporations that it had 271 ARCO distributors in the United States. Since October, 1981, I estimate that ARCO has eliminated approximately 70 more ARCO distributors.

The decline in the number of ARCO distributors from 1973 confirms that ARCO is accomplishing the goals set forth in Program AFE.

ARCO'S PUBLIC STATEMENTS

On June 17, 1982, ARCO's Senior Vice President, George H. Babikian, is reported to have said:

> "ARCO has put some very tough requirements on the wholesale class of trade.
>
> * * *
>
> "It would be nice to get it 100% retail."

On August 3, 1982, James Morrison, President of ARCO Petroleum Products Division, is reported to have said:

"The sales at ARCO's 2,755 company-owned stations were up an average of 50% compared to the same period of a year earlier. Total gasoline sales for the firm rose 15%.

"ARCO's wholesale operations fell by about 20%.

"ARCO's profits rose to $273,000,000 for the first half of 1982 from $78,000,000 a year earlier."

CONCLUSION

I believe ARCO's conduct is illegal.

CADI invokes your commitment to "high standards of corporate and individual integrity" to bring an immediate halt to these unlawful acts which are causing CADI members irreparable injury.

CADI also asks that the appropriate federal and state agencies immediately intervene to bring a halt to these unlawful acts. Accordingly, copies of this formal complaint are being lodged with the Federal Trade Commission, the U. S. Department of Justice, the California Department of Justice and the California Department of Corporations.

Sincerely yours,

David Laufer

DAVID LAUFER

DL:dh
encs.

cc: Mr. J. P. Downer, Vice Chairman, ARCO
Miss Hanna Holborn Gray, Member, Board of Directors
Federal Trade Commission, Washington, D. C.
United States Department of Justice, Washington, D. C.
California Department of Justice, Sacramento, California
California Department of Corporations, Sacramento, California
Los Angeles County District Attorney, Los Angeles, California
Officers and Directors of CADI

SUPERIOR COURT OF THE STATE OF WASHINGTON

FOR THE COUNTY OF WHATCOM

ATLANTIC RICHFIELD COMPANY,
A PENNSYLVANIA CORPORATION,

PLAINTIFF,

VS.

T. M. HARMER AND JANE DOE
HARMER, HUSBAND AND WIFE,

DEFENDANTS.

No. 51437

DEPOSITION OF JAMES S. MORRISON
TAKEN BY DEFENDANTS
IN LOS ANGELES, CALIFORNIA
WEDNESDAY, MARCH 16, 1977

REPORTED BY

A. E. WILCOX, CSR
CERTIFICATE NO. 1170

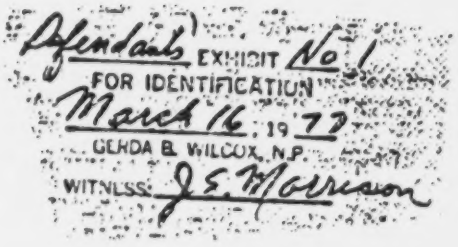
FILE NUMBER 116-77

Gerry B. Wilcox & Associates

CERTIFIED COURT REPORTERS
99 EAST MAGNOLIA BOULEVARD
BURBANK, CALIFORNIA 91502
TELEPHONE: (213) 849-6886

Atlantic Richfield Company
Products Division

Bulk Plant Profitability Project
Program AFE



Interoffice

Transmittal Letter

To: Messrs. H. B. Douglas
W. M. Marcussen
C. A. Walsh
J. S. Morrison

Subject: Bulk Plant Profitability Project

This is the Program AFE and supporting material authorizing proceeding to identify those Commission Agent operations which would reflect a Rate of Return improvement by elimination in favor of direct delivery by Atlantic Richfield.

This requires approval by the Board of Directors and a decision should be made prior to the end of the year.

W. L. Warrick

Atlantic Richfield Company

Authorization For Expenditure

Department: Marketing	Operating unit: All	Date authorized	
Authorization title: Bulk Plant Profitability Project		☐ Original AFE M $ 18.2 Expense ☐ Original AFE M $ 17.2 Capital	
Location: National		☐ Supplement $	
		☐ Revised total $	
☐ Capital	Account: 1000	Cost center: C—095	Estimated starting date: 1973
☐ Lease expense $	☐ Programmed expense	Cost center: C—095	☐ Order of magnitude
			Estimated completion date: 1975
			☐ Emergency

This is an Order of Magnitude AFE which will outline the dimension of the Bulk Plant Profitability Project. In essence the objective if the Project is to simplify Atlantic Richfield's Distribution System by eliminating Commission deliveries in favor of Direct Company deliveries in all cases where it has been proven to be economically attractive to do so. The maximum cost of this program is estimated below:

Item	$M Capital Investment
New Delivery Trucks	10.3
Real Property Purchased from Commission Agents	6.9
Capital Investment Total	17.2
Less Sale of Bulk Plant Sites	(1.5)
Sale of Land & Bldg. Purchased from Commission Agents	(4.8)
Fixed Capital Expenditure	10.9

	$M Programmed Expense
Trucks Purchased from Commission Agents	3.8
Equipment Purchased from Commission Agents	2.9
Lease Termination Penalties	2.5
Write-off of Bulk Plant P&E	4.8
Write-off of Equipment (existing)	1.0
Legal Costs and Settlements	1.1
Demolition of Bulk Plant P&E	1.4
Restoring of Bulk Plants at Closing	.6
LIBA Purchased from Commission Agents	.1
Program Expense Total	18.2
Less Immediate Salvage Value to Trucks Purchased from Agents	(1.9)
Fixed Program Expense	16.3

Investment Budget Items

Marketing Operation		Service station number		Budget item number	State number	County number
Incremental AFIT ☐ Base Operation	Budget Item	Dollars Authorized Thousands M	Spending Variation (Thousands) Current year 1973	Budget year 1974	Second 1975	Third year
	Capital	$ 10.9	.4	2.9	7.6	
	Expense	$ 16.3	1.1	4.0	11.2	
		$				
	Total $	27.2	1.5	6.9	15.8	

	Date		
Originator W. L. Warnick		☐ Controller	Date
Engineering Approval H. E. Douglas		☐ Division Operations Manager	
C. A. Walsh		☐ Treasurer	
W. M. Marquisson		☐ Planning	
Functional Approval J. S. Morrison		☐ Executive Vice President	
Additional Endorsements		☐ President	

Investment Approvals

Supplemental Appropriation Requests

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7.0 Reporting and Controls

8.0 Supporting Data and Exhibits

1.00 Summary

1.01 Management Overview

Approximately 800M gallons (8%) of Marketing's annual product sales is delivered to customers by about 500 Commission Agents, most of whom are located in the Central and Western areas. In general they operate from bulk plants located in small towns.

A preliminary evaluation of commission delivery indicates that a substantial improvement in Rate of Return can be made by converting all or most of these deliveries from commission to direct. The conversion is made more attractive by the fact that continuation of the present system will recuire an additional investment of approximately $6M to bring bulk plants into compliance with governmental requirements for OSHA, EPA, etc.

1.02 Project Description

This project will identify those Commission operations which should be eliminated by means of an individual economic evaluation and thereafter to proceed with such eliminations.

1.03 Economic and Environmental Analysis

Implementation could require buyout and other expenditures of as much as $27M over a two year period. This expenditure would increase AFIT Rate of Return from 11% for the existing system to 26% for the proposed system. The Incremental Rate of Return would exceed 100%.

1.04 Project Plan and Budget

Responsibility for implementation of the project will rest primarily with Distribution since this is a Distribution function. Coordination will be handled by Marketing Services. The budget calls for:

	$M Capital	$M Expense	$M Total
1973	.4	1.1	1.5
1974	2.9	4.0	6.9
1975	7.6	11.2	18.8
Total	10.9	16.3	27.2

1.05 Reports and Controls

Proper levels of management will be kept advised of expenditures against budget and updated projections of total expenditures will be issued quarterly in the form of a revised Program AFE.

2.00 **Introduction**

The Bulk Plant/Commission Agent concept was originally developed to facilitate the marketing of petroleum products in primarily rural areas. These "Commission Agents" generally operated out of bulk plants erected by the industry in small communities.

At the time of conception, the typical customer was low volume with small delivery capacity and it was felt the most economical method of delivery would be via a "Commission Agent" who lived in the immediate area.

Product was originally transferred from the refineries or terminals to these bulk plants by rail and in the past years by transport trucks. As deliveries to these bulk plants by truck increased, it became apparent that the product could be delivered directly to the customer completely eliminating the Bulk Plant/Commission Agent system.

The original concept of a "Commission Agent's" function was delivering only that volume which the industry found economically unattractive to do so. An examination of the volume now being delivered by the "Commission Agent" reveals that approximately 70% of it is deliverable by ARCO in large transport trucks with the remaining 30% deliverable by smaller (4000 gallon) trucks.

While the evaluation of delivery costs (8.01.02) indicated that Direct Delivery of these products to be more profitable on an overall basis than Commission delivery, any previous attempts to improve profitability by substituting a completely Direct Delivery system for the existing Commission system simply resulted in the former Commission Agent performing the same function for a competitor. Because of the Commission Agent's local relationship with the customers he was usually able to persuade a great majority of them to purchase from whichever competitor he was then representing resulting in a serious loss in volume and overall revenue.

There is not now nor has there been any valid legal objection to the replacement of the Commission Agent system with the Direct Delivery system (8.05) however, we *are*, under product allocation, obliged to continue to serve all existing customers. This will effectively prevent our complete withdrawal from certain classes of trade or geographical markets until such time as product allocation ceases. Product allocation will also minimize the risk of loss of desirable volume during these next few years.

The industry as a whole has recognized the profit improvement potential in elimination of the Bulk Plant/Commission Agent system and such a trend is now underway currently being stimulated by the large investments necessary to bring such plants in compliance with OSHA, EPA, and other governmental inspired programs.

3.00 **Project Description**
The project will evaluate the economics of product delivery to customers by Commission Agents versus delivery of these same products direct by Atlantic Richfield. The evaluations to be on a Commission Agent by Commission Agent basis.

Note: The term Commission Agent will be used to describe all such operations in which an independent party delivers product for Atlantic Richfield and receives a commission for this service.

Objective of this exercise is the identification of those commission operations which can be converted to a delivery method which will result in an increased Rate of Return.

3.01 **Scope**
The scope of these evaluations to include all "Commission Agents" with numbers and types as of 12/31/72 indicated below.

Type	East	Central	West	Total
Commission marketers	5	211	0	216
Commission distributors	30	0	175	205
Commission drivers	0	67	0	67
Commission TT distributors	0	0	40	40
Commission wholesale distributors	43	0	0	43
Total Commission Agents	**78**	**278**	**215**	**571**

Each of the above performs essentially the same services. As a general rule, however, Commission marketers and Commission distributors operate from bulk plants, while the others operate directly from terminals.

The annual volume, Commissions paid, and number of plants are as follows:

	East	Central	West	Total
1972 Commissions	1.6$\overline{M}$	7.8$\overline{M}$	10.0$\overline{M}$	19.4$\overline{M}$
1972 Volume	70$\overline{M}$	330$\overline{M}$	357$\overline{M}$	757$\overline{M}$
Number of Bulk Plants	37	227	185	449

3.02 **Assumptions**

3.02.01 Sales volumes should remain the same for the foreseeable future because of product allocation. This will effectively prevent either the gain of desirable volume or the loss of undesirable volume by ARCO as well as our major competitors.

3.02.02 Any volume which is lost through conversion from commission to direct delivery can be sold at equal or greater net back without further investment by direct refinery sales.

3.02.03 There is no obligation, legal or otherwise, to maintain any portion of the commission delivery system. (8.05)

3.02.04 No commitments for funds need be made beyond an individual evaluation by evaluation need. Each such expenditure to be fully supported by suitable economic justification. (5.03)

3.02.05 The project can be stopped at any point in time.

3.02.06 All expenditure estimates are based on maximum exposure and anticipate complete conversion.

4.00 Economic and Environmental Analysis

The present economic environment is one in which profits can best be maximized by reducing expenses as opposed to increasing prices. The importance of this project is emphasised by the current economic climate.

The project life is arbitrarily set at ten years since it is felt that either operation would produce a durable income stream for at least that long.

4.01.01 Summary Sheet

Overall comparison of Case 1 (Commission System) indicates a AFIT cash flow improvement of $4.0M. Expenses are based on project average (4.01.04 & 4.01.05) Revenue developed from projection on 8.11 and 8.11.01.

Name of Commission Agent

Bulk Plant | Type

Zone | State

1st Case
Commission Operation
All Volume

Summary Sheet

2nd Case
Direct Operation
All Volume

Product Class	Annual Volume (000) M	1973 Revenue $(000) c	Annual Volume (000)	1973 Revenue $(000) c
ARCOsupreme				
ARCO				
Distillates 1				
Distillates 2				
Auto Oils				
Ind Oils		M		M
Auto Greases				
Ind Greases				
Total	8 11.01			
Project Average	760	157.1	760M	157.1

Expenses:	$	c
Distribution Clerical 4.03.01	0 0	.00
Delivery Costs 4.03.02	5 9	.78
Commissions 4.03.03	20 9	2 75
Rentals 4.03.04	0 3	.04
Taxes 4.03.05	0 4	.05
Depreciation (Tax Method) 4.03.05	0 3	.04
Maintenance 4.03.06	0 2	.03
Supplies 4.03.07	0 1	.01
Stock Loss 4.03.08	0 8	.10
Credit 4.03.09	0 8	.10
Selling 4.03.10	0 9	.12
Administration 4.03.11	2 6	.35
Overhead 4.03.12	3 1	.41
Credit Card Processing 4.03.13	3 6	47
NONRECURRING EXPENSES 4.05	.5	.06
Total Expenses	40 7	5 36
	4.01.04	

One Time Cash Outlay $	$M
New Equipment 4.02.02	10 3
Distributor Buyout 4.05	10 *
Legal Costs 4.05.05	1 1
Book Value Writeoff	5 8
Demolition & Securing 4.05.06	2 0
	29 2

TBA Income	*
Rental Income	157 4
Gross Revenue	110 8
Cost of Product	46 6
Gross Income	40 7
Total Expenses	5 9
Net Taxable Income	2 5
Fed Income Tax	3 4
Net Income (AFIT)	.5
Add Back Deprec	3 9
Net Cash Flow (AFIT)	11
ROR% (AFIT)	35 6
Investment Base	

$	c
5 9	.78
15 1	1.99
0 0	.00
0 0	.00
0 1	.01
1.8	.24
0 1	.01
0 1	.01
0 0	.00
0 8	.10
0 9	.12
2 3	30
3 1	.41
3 6	47
1 8	.24
35 7	4 70
4.01.05	

TBA Income	
Rental Income	157.1
Gross Revenue	110 8
Cost of Product	46.3
Gross Income	35.7
Total Expenses	10.6
Net Taxable Income	4 5
Fed Income Tax	6 1
Net Income (AFIT)	1 8
Add back Deprec	3 9
Net Cash Flow (AFIT)	2 5
ROR % (AFIT)	31 0
Investment Base	

4.01.02 Cash Flow Sheet

Case 1 (Commission system) cash flow timetables to accommodate $6.0M in OSHA, EPA expense in first two years of project life. Salvage realized at beginning of eleventh year.

Cash Flow Sheet	Year 1 1974	Year 2 1975	Year 3 1976	Year 4 1977	Year 5 1978	Year 6 1979	Year 7 1980	Year 8 1981	Year 9 1982	Year 10 1983	Year 11 Salvage
Fixed Capital											
Land – Bulk Plant 4.04.05	15										15
Improvements – Bulk Plant 4.04.05	–4.8										0
Land – Service Station 4.04.06											
Improvements – Service Station 4.04.06											
Equipment – Marketing 4.04.04	–2.3										0
Trucks – New 4.02.02											
Other											
Working Capital											
Accounts Receivable 4.04.07	–18.2										18.2
Inventories 4.01.09	–8.8										8.8
Total Capital Investment	–35.5	0	0	0	0	0	0	0	0	0	38.5
Income & Expenses											
Gross Income 4.01.01	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	0
Annual Operating Expenses 4.01.04	–37.4	–37.7	–38.9	–37.2	–39.5	–40.7	–41.0	–41.3	–42.7	–43.0	0
Non-Recurring Expenses 4.05											
Improvements, Write-off Existing 4.05.03											
Equipment Write-off Existing 4.05.04											
Write-off or Difference on Land & Bldgs 4.04.03											
Lease Buyout Considerations 4.05.03											
Legal Fees & Settlements 4.05.05											
Purchase of Agents Equipment 4.05.02											
Purchase of Agents Trucks 4.05.01											
Sale of Agents Trucks (Salvage) 4.05.01											
Termination of Improvements 4.05.06											
Screening of Plants 4.05.07											
OSHA, EPA, etc. 4.05.08	–3.0	–3.0									
Net Income (PBIT)	6.2	5.9	7.7	7.4	7.1	5.9	5.6	5.3	3.9	3.6	0
Federal Income Tax	–1.3	1.3	–1.6	–1.6	–1.5	–.98	–2.4	–2.3	–1.7	–1.6	0
Net Income (AFIT)	4.9	4.6	6.1	5.9	5.6	–3.9	3.2	3.0	2.2	2.0	0
Add Back Depreciation (from P&L) 4.01.08	.5	.5	.5	.5	.5	.5	.5	.5	.5	.5	0
Cash Flow (AFIT) 4.06.01	5.4	5.1	6.6	6.3	6.1	–3.4	3.7	3.5	2.7	2.5	0
ACCUMULATIVE CASH FLOW 4.06.01	–30.2	–25.1	–18.5	–12.2	–6.1	–9.5	–5.8	–2.3	.4	2.9	31.4

4.01.01 Cash Flow Sheet

Case 2 (Fixed Location) cash flow timetabled to accomodate $16.3M in nonrecurring expenses in the first two years of the project life. Salvage realized at beginning of the 11th year.

Cash Flow Sheet		Year 1 1974	Year 2 1975	Year 3 1976	Year 4 1977	Year 5 1978	Year 6 1979	Year 7 1980	Year 8 1981	Year 9 1982	Year 10 1983	Year 11 Salvage
Fixed Capital												
Land — Bulk Plant 4.04.09	1.5	1.0	1.0									0
Improvements — Bulk Plant 4.04.0_	4.8	1.1	1.3									0
Land — Service Stations 4.04.06	0	1.4	1.4									0
Improvements — Service Stations 4.04.06	0	.7	1.4									0
Equipment — Marketing 4.01.04	2.1	2.0	.7									0
Trucks — New 4.02.02	0	3.2	7.1					2.2	-7.1			0
Office	0	2.1	1.8									4.0
Working Capital												
Accounts Receivable 4.03.07	-18.2	-18.2										18.2
Inventories 4.04.09	4.8	-5.8	4.8									1.2
Total Capital Investment	35.6	33.5	2.5	0	0	0	0	2.2	-7.1	0	0	23.4
Income & Expenses												
Gross Income 4.01.01	46.5	46.1	46.1	46.1	46.3	46.1	46.3	46.3	46.3	46.3	46.3	0
Annual Operating Expenses 4.01.04	37.4	-28.9	-32.1	31.4	-31.9	32.9	-32.3	34.8	-36.2	-37.8	-38.7	0
Non Recurring Expenses 4.05												
Improvements Write-off Existing 4.05.04		-1.5	-3.3									
Equipment Write off Existing 4.05.04		-.3	-.7									
Write off or Difference on Land & Bldgs. 4.04.03		-.6	1.5									
Lease Buyout Considerations 4.05.01		-.8	-1.8									
Legal Fees & Settlements 4.05.05		-.3	-.8					1				
Purchase of Agents' Equipment 4.05.02		-.9	-2.0									
Purchase of Agents' Trucks 4.05.01		-1.2	-2.6									
Sale of Agents' Trucks (Salvage) 4.05.01		.8	1.3									
Demolition of Improvements 4.05.08		-.4	-1.0									
Securing of Plants 4.05.07		-.3	-.3									
OSHA, EPA, etc. 4.05.08												
Net Income (BFIT)	9.2	11.7	1.5	14.9	14.4	13.4	14.0	11.5	8.1	8.5	7.6	0
Federal Income Tax	-1.9	-2.5	-.3	-3.2	-3.1	-2.9	-1.8.0	-5.0	-3.5	-3.7	-3.3	0
Net Income (AFIT)	7.3	9.2	1.2	11.7	11.3	10.5	-4.0	6.5	4.6	4.8	4.3	0
Add Back Depreciation (from P&L) 4.01.06	.5	1.3	3.6	2.1	1.8	1.6	0	1.3	3.6	2.1	1.6	0
Cash Flow (AFIT) 4.06.01	7.8	10.5	4.8	13.8	12.9	12.1	-4.0	7.8	8.2	6.9	5.90	
ACCUMULATIVE CASH FLOW 4.06.01		-23.0	-15.7	-1.9	11.0	23.1	19.1	24.7	25.8	32.7	38.6	62.0

4.01.04 **Expense Sheet**

Case 1 (Commission system) expenses timetables and reflect compounding of certain items in line with EPC forecasts. Project average used in Summary Sheet (4.01.01).

Commission Operation	All Plant	Date	$M Expense Sheet Operating									
	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Project Average
Distribution Clerical		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Delivery Costs		4.7	5.0	5.2	5.5	5.7	6.0	6.3	6.6	7.0	7.3	5.9
Commissions		19.4	19.4	20.4	20.4	20.4	21.4	21.4	21.4	22.4	22.4	20.9
Rentals		.3	.3	.3	.3	.3	.3	.3	.3	.3	.3	.3
Taxes		.4	.4	.4	.4	.4	.4	.4	.4	.4	.4	.4
Depreciation		.5	.5	.5	.5	.5	.5	.5	.5	.5	.5	.5
Maintenance		.2	.2	.2	.2	.2	.2	.2	.2	.2	.2	.2
Supplies		.1	.1	.1	.1	.1	.1	.1	.1	.1	.1	.1
Stock Loss		.8	.8	.8	.8	.8	.8	.8	.8	.8	.8	.8
Credit		.8	.8	.8	.8	.8	.8	.8	.8	.8	.8	.8
Selling		.9	.9	.9	.9	.9	.9	.9	.9	.9	.9	.9
Administrative		2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6
Overhead		3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1
Credit Card Processing		3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6
Non Recurring Other		3.0	3.0									.5
Total Expenses		40.4	40.7	38.9	39.2	39.5	40.7	41.0	41.3	42.7	43.0	40.7

4.01.05 **Expense Sheet**

Case 2 (Direct system) expenses timetables and reflect [illegible] scaling of Distribution Clerical and Delivery costs in line with EPC forecasts. Non-recurring expenses factored in and project averages used in Summary Sheet (4.01.01).

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Average
Distribution Clerical 4.03.01	4.6	4.9	5.1	5.4	5.7	6.0	6.4	6.7	7.0	7.5	5.9
Delivery Costs 8.01.02	12.0	12.6	13.2	13.9	14.6	15.3	16.1	16.9	17.7	18.6	15.1
Commissions 8.01.03	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Rentals 4.03.04	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Taxes 4.03.05	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Depreciation 4.01.07	1.3	3.6	2.1	1.6	1.8	0.0	1.3	3.6	2.1	1.6	1.8
Maintenance 4.03.06	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Supplies 4.03.07	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Stock Loss 4.03.08	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit 4.03.09	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Selling 4.03.10	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Administrative 4.03.11	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Overhead 4.03.12	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1
Credit Card Processing 4.03.13	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6
NONRF CURRING EXPENSES 4.01.03	5.7	12.7	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	1.8
Total Expenses	34.6	44.6	31.4	31.9	32.9	32.3	34.8	38.2	37.8	38.7	35.7

4.01.06 **Depreciation Schedules**
Case 1 (Commission system) depreciation limited tc straight line and as reflected in facility expense reports. No new capital assets are anticipated in Case 1.

Straight Line Year	$\bar{M}$ Cost	$\bar{M}$ Undepreciated Value	$\bar{M}$ Annual Depreciation	$\bar{M}$ Balance Forward
1	3200	3200	640	2560
2	7100	9660	2060	7600
3	0	7600	2060	5540
4	0	5540	2060	3480
5	0	3480	2060	1420
6	0	1420	1420	0
7	3200	3200	640	2560
8	7100	9660	2060	7600
9	0	7600	2060	5540
10	0	5540	2060	3480
Project Average			1712	

4.01.07 **Depreciation Schedule**
Case 2 (Direct system) depreciation limited to new capital assets (trucks) and is double declining balance method. No other depreciation anticipated in Case 2.

Double Declining				
1	3200	3200	1280	1920
2	7100	9020	3608	5412
3	0	5412	2165	3247
4		3247	1624	1624
5		1624	1624	0
6		0	0	0
7	3200	3200	1280	1920
8	7100	9020	3608	5412
9	0	5412	2165	3247
10	0	3247	1624	1624
Project Average			1898	

4.01.08 Work Sheet

Product cost figures developed from projections in 8.11 and 8.11.01. All other costs based on 760M gallons.

Exhibit 8.03.03

Bulk Plant — **Work Sheet**

Product Class	Volume	CGL	All Volume TIV	All Volume cPG	Total Cost	C&S	All Volume TIV	All Volume cPG	Total Cost	Selected Volume GCL	Selected Volume C&S
ARCOsupreme											
ARCO											
Distillate 1											
Distillate 2											
Auto Oils											
Industrial Oils											
Auto Greases											
Ind. Greases											
Total Gallons	760M							14.58	110.8		

Stock Loss:
12c on Commission Vol x 760M = 912,000

Credit:
.10c on all Commission Vol x 760M = 760,000
.10c on all Direct Vol x 760M = 760,000

Selling:
.15c on Gasoline Vol x 500M = 750,000
.05c on Distillate x 260M = 130,000
.12c

Administrative:
.35c on Commission Vol x 760M = 2,660,000
.30c on Direct Vol x 760M = 2,280,000

Overhead:
50c on Gasoline Vol x 500M = 2,500,000
25c on Distillate x 260M = 650,000
.42c

Credit Card Processing:
1.18 / .62 Retail Volume 200M / 180M = 2,360,000 / 1,116,000

Marketing Equipment:
.30c x 757 / All Volume = $2,300,000 / Marketing Equipment

Delivery Costs:

	Now	Future
Light Oils	8.01.02	
Lubes		
Total	23,900,000	16,650,000

Taxes

Inventory:

	Storage Cap x	% =	Gallons on Hand x	CPG = $	
Gasoline					8.04.01
Distillates					
Lubes					

Annual Depreciation ___ % x $ ___ = $ ___

4.01.07

4.01.09 **Book Reporting Income**

AFIT cash flow restated to reflect straight line depreciation and book income for project life.

Cash Flow Sheet	0	Year 1 1974	Year 2 1975	Year 3 1976	Year 4 1977	Year 5 1978	Year 6 1979	Year 7 1980	Year 8 1981	Year 9 1982	Year 10 1983	Year 11
4.01.03 Fixed Capital												
Land — Bulk Plant												
Improvements — Bulk Plant												
Land — Service Station												
Improvements — Service Station												
Equipment — Marketing												
Trucks — New												
Other												
Working Capital												
Accounts Receivable												
Inventories												
Total Capital Investment												
Income & Expenses												
Gross Income 4.01.01		46.3	46.3	46.3	46.3	46.3	46.3	46.3	46.3	46.3	46.3	
Annual Operating Expenses		−29.2	−30.6	−31.4	−32.4	−33.4	−33.7	−34.1	−36.7	−37.8	−39.2	
Non Recurring Expenses												
Improvements Write off Existing		−1.5	−3.3									
Equipment Write off Existing		−.3	−.7									
Write-off re Difference on Land & Bldgs		−.6	−1.5									
Lease Buyout Considerations		−.8	−1.8									
Legal Fees & Settlements		−.3	−.8									
Purchase re Agents' Equipment		−.9	−2.0									
Purchase of Agents' Trucks		−1.2	−2.6									
Sale of Agents' Trucks (Salvage)		.6	1.3									
Demolition of Improvements		−.4	−1.0									
Securing of Plants		−.3	−.3									
OSHA, EPA, etc												
Net Income (BFIT)		12.4	3.0	14.9	13.9	12.9	12.6	12.2	9.6	8.5	7.1	
Federal Income Tax		−2.7	−.6	−3.2	−3.0	−2.8	−17.7	−5.3	−4.1	−3.7	−3.1	
Net Income (AFIT)		9.7	2.4	11.7	10.9	10.1	−5.1	6.9	5.5	4.8	4.0	
Add Back Depreciation (from P&L) 4.01.07		.6	2.1	2.1	2.1	2.1	1.4	.8	2.1	2.1	2.1	
Cash Flow (AFIT)		10.3	4.5	13.8	13.0	12.2	−3.7	7.5	7.6	6.9	6.1	

4.01.10 **Tax Reporting Income**

AFIT cash flow reflecting double declining balance depreciation and tax income for project life.

Cash Flow Sheet	0	Year 1 1974	Year 2 1975	Year 3 1976	Year 4 1977	Year 5 1978	Year 6 1979	Year 7 1980	Year 8 1981	Year 9 1982	Year 10 1983	Year 11
Fixed Capital												
Land — Bulk Plant												
Improvements — Bulk Plant												
Land — Service Station												
Improvements — Service Station												
Equipment — Marketing												
Trucks — New												
Working Capital												
Accounts Receivable												
Inventories												
Total Capital Investment												
Income & Expenses												
Gross Income 4.01.01												
Annual Operating Expenses		463	463	463	463	463	463	463	463	463	463	-0-
Non Recurring Expenses		209	-321	-314	-319	—329	—323	—348	—382	—378	—387	-0-
Improvements Write-off Existing		—15	—33									
Equipment Write-off Existing		— 1	— 7									
Write-off or Difference on Land & Bldgs		— 6	—15									
Lease Buyout Considerations		— 8	—18									
Legal Fees & Settlements		— 3	— 8									
Purchase or Agents' Equipment		— 9	—20									
Purchase of Agents' Trucks		—12	—26									
Sale of Agents' Trucks (Salvage)		8	13									
Demolition of Improvements		— 4	—10									
Securing of Plants		— 3	— 3									
OSHA, EPA, etc												
Net Income (BFIT)		11.7	15	149	144	134	140	115	81	85	—33	
Federal Income Tax		—25	— 3	—32	—31	—29	—180	—50	—35	—37	43	
Net Income (AFIT)		92	12	117	113	105	—40	65	46	48	10	
Add Back Depreciation (from P&L) 4.01.07		13	36	21	16	16	-0-	13	36	21	59	
Cash Flow (AFIT)		105	48	138	129	121	—40	78	82	69	78	

4.01.11 **Payback Period**
Three Years (4.06.02)

4.01.12 **Breakeven Analysis**
Project can show breakeven status with 24.9\overline{M}$ less in total project uniform cash flow. (4.06.02)

4.02 Revenue and Income

These are extracted from systems reports and are assumed level for project life. Volume levels to remain constant because of product allocation and the near term tight supply situation. (8.03.07)

4.02.01 Revenue

1973 (June) realizations are applied by product to 1972 volume to arrive at current revenue to which any TBA or rental income is added to arrive at total revenue. June, 1973 is felt to most closely typify the present price realization picture and the foreseeable future because of product shortage and price controls. Product costs for light oils are based on C&S latest estimate of refinery sales for products plus appropriate transport charges from refinery to terminal and are assumed level for project life. Lubricant costs are determined by MPIV costs for lubricants grouped by auto oils, industrial oils, auto greases, and industrial greases at individual refineries.

4.02.02 Income

Service station rental income will be included only if the investment and volume for the same service station is considered. This would be in the instance where a Commission Agent is currently delivering a Lessee Dealer station where ARCO has an investment either in fee or leasehold. Stations we might acquire as a result of termination of the Commission Agent would also be included.

TBA income is included where applicable and represents our profit on the sale of TBA to the Commission Agent for his resale to customers. In some instances we would retain this profit even though the Commission Agent is terminated.

4.03 General Operating Expenses

These are assumed to remain level except for those subject to inflationary compounding in line with EFC forecasts. The one time cash outlays at beginning of project are treated as expense in the year they occur.

4.03.01 Distribution Clerical

These represent the expenses of additional clerks and dispatchers required at terminals to handle the increased ticket load resulting from elimination of the Commission Agent. It is estimated that 175 Dispatchers and 132 Clerks would be necessary by Distribution at an annual cost of $15,000 each or $4,636,000 for all. This translates to .61c per gallon for the 760 million gallon system and this figure is applied to the individual evaluations to charge them for their prorata share of the increased costs. This figure will be compounded by 5.6% over the ten year project life for inflation in line with EFC forecasts. (8.01.01)

4.03.02 Delivery Costs

These represent the actual cost of transferring product from a refinery or terminal to the bulk plant in Case 1 or direct to the customer in Case 2. Included are all equipment operating expenses as well as driver's salaries and are based on the actual current operating costs at each terminal. These costs are compounded by 5.0% for inflation in line with EFC forecasts.

Distribution estimates that a 6000 gallon truck will average 35 miles per hour while driving. Three drops per load for retail accounts and eight drops per load for others. Distance is measured to the bulk plant town plus five miles between drops and .5 hour per drop for all over one. 1.4 Hours of dead time per load to cover return empty to terminal. Package goods are charged 8.0c per gallon warehouse costs and delivery costs are based on terminal actual for the same type of equipment.

Depreciation in Case 2 for the new trucks is included in the depreciation category and is based on Double Declining balance method for tax reporting.

4.03.03 **Commissions**
Commissions are extracted from systems and represent all commissions paid the Commission Agent including any commission paid on volume delivered direct by Atlantic Richfield as well as special hauling allowances, etc. These are compounded every three years by 5% to compensate for inflation. (8.03.07)

4.03.04 **Rentals**

Rentals are taken from expense facility runs and represent rentals paid on bulk plants or service stations.

Rentals paid on service stations are included in only those instances where the Commission Agent actually delivered to the station and where the revenue from any such volume is included. In this instance rental income would also be considered.

4.03.05 **Taxes**

This represents all taxes charged land or improvements owned in fee or taxes ARCO is obligated for on volume considered for revenue. $100 is used to cover taxes on inventory and marketing equipment in all cases in lieu of definitive figures. Income taxes are not a part of the figure.

4.03.06 **Depreciation**

This represents depreciation on all capital assets considered in either case. (8.03.04)

	Book Reporting			Tax Reporting
Depreciation Schedule	Economic Life	Depreciation Rate %	Tax Life	Depreciation Rate %
Bulk Plants	15	6.7 SL	13	200% DB
Marketing equipment	5	20.0 SL	5	200% DB
Service station improvements	15	6.7 SL	13	200% DB
4000 gallon bobtail truck	5	20.0 SL	5	200% DB
8000 gallon transport truck	5	20.0 SL	5	200% DB
1650 gallon lube truck	5	20.0 SL	5	200% DB
Office furniture, etc	8	12.5 SL	8	200% DB

4.03.06 **Maintenance**

This represents the maintenance of all assets involved and is extracted directly from expense facility runs in the first case. In the second case, a flat $100 is used in lieu of specific figures.

4.03.07 **Supplies**

This represents the supplies needed to maintain either operation and is extracted from expense facility run in first case and estimated at $100 in second case in lieu of specific figures.

4.03.08 **Stock Loss**

The figure of .12c per gallon reflects the amount of loss due to stock shortage at any typical bulk plant. This figure is arbitrarily set and has been used and accepted in past studies.

4.03.09 **Credit**

A figure of .10c has been developed by examination of five field credit areas as follows:

Volume	O&G	cPG	Writeoffs	cPG	Home Office	cPG	Total	cPG
$360M	$78M	.02	$151M	.04	$80M	.02	$309M	.10

It is considered typical of costs associated with credit services and is used in both cases.

4.03.10 **Selling**

A figure of .10c was developed from the 1971 P&L and represents the selling costs associated with this type of volume and has been used and accepted in past studies. It is used in both cases.

4.03.41 **Administrative**

Figures developed from the 1971 P&L are .35c on all commission deliveries volume. Administrative planning advises that termination of the Commission Agents would result in a reduction of 45 people representing annual payroll savings of $450,000. This amounts to .05c per gallon on the 757 million gallons. Therefore 30c is used in Case 2. (8.08)

4.03.12 **Overhead**

These figures were developed from the 1971 P&L and represent all overhead through the Products Division level and used in both cases.

.50c on all gasoline volume

.35c on all Distillate volume

4.03.13 **Credit Card Processing**

The figures used in the Service Station Justification Procedure are:

1.18c in the West

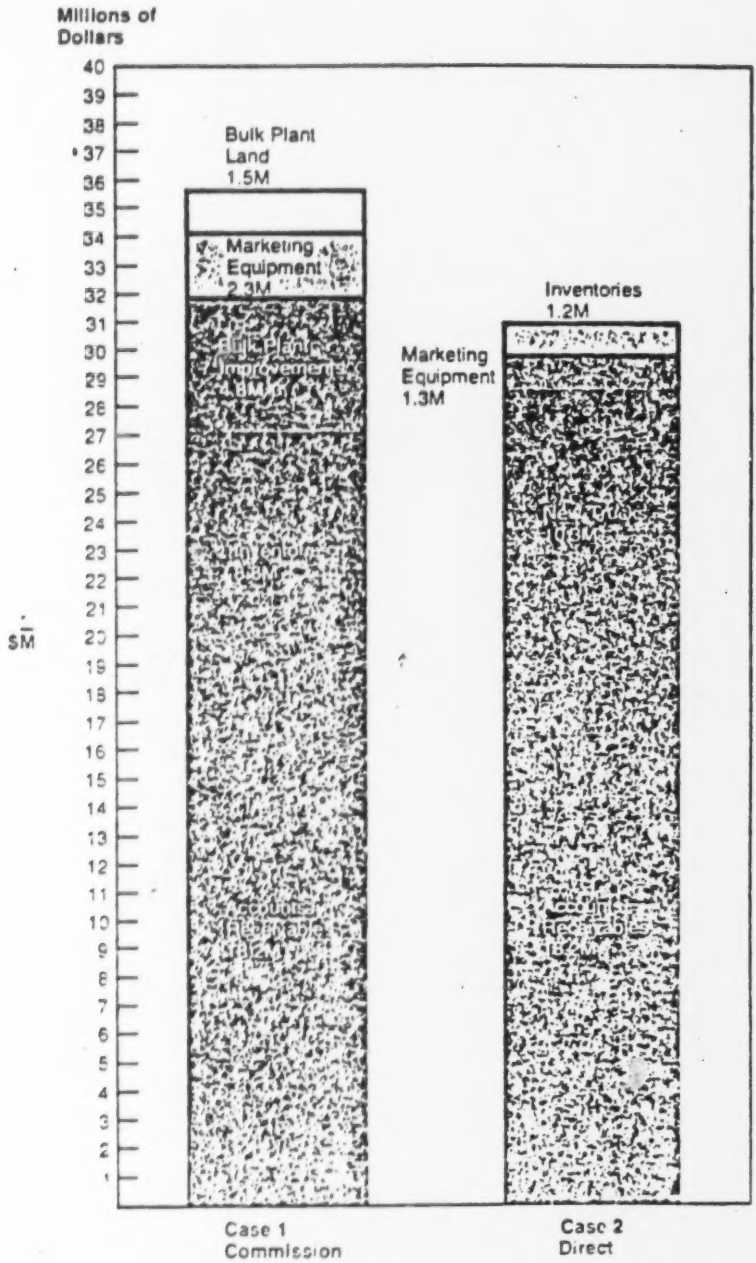
.62c in the East

These charges are applied to all retail volume in each case to arrive at proper credit card expense and used in both cases.

4.04 **Balance Sheet Impact**

Item	Now $\bar{M}$	Future $\bar{M}$
Fixed Capital		
Marketing Equipment	2.3	1.3
Bulk Plant Improvements	4.8	—
Bulk Plant Land	1.5	—
New Delivery Trucks	—	10.3
Working Capital		
Accounts Receivables	18.2	18.2
Inventories	8.8	1.2
Total Capital Investment	35.6	31.0

4.04.01 **Balance Sheet Impact**



4.04.02 **New Trucks**

Capital expenditures are limited to the acquisition of new delivery equipment at estimated cost of $10.3M (8.01) these trucks will be acquired over a 3 year period coinciding with the rate at which terminations take place.

An additional input of capital in the amount of $10.3M will be required beginning in the seventh year of the project to provide for replacement of the fleet.

Each evaluation is charged its prorata share of the capital requirements necessary. This is based on how many hours are necessary to deliver the particular volume involved multiplied by the cost of new trucks broken down into an hourly cost. (8.03.06)

4.04.03 **Land & Bldgs. Purchased from Commission Agents**

Additional capital may be required to purchase certain land and improvements now owned by the Commission Agents and in service as either service stations or bulk plants. Based on our experience to date this could mean an outlay of $6.9M. (8.02)

Approximately 10% of these properties may be acceptable as Lessee Dealer retail outlets and therefore become a part of our normal service station inventory. The balance of these properties will be sold within one year at an estimated price of $4.8M.

4.04.04 **Marketing Equipment**

There is marketing equipment already owned by ARCO involved in the 760 million gallons delivered by Commission Agent. This represents equipment installed at various customer locations and is not readily identifiable by Commission Agent. A Figure of .30c per gallon has been developed as below and is applied to the volume at individual evaluations to determine the value of ARCO owned equipment.

	Annual Volume		Net Book Value	cPG
West	360M	+	$ .8M	.23c
East	400M	+	$1.5M	.37c
	760M		$2.3M	.30c

It is estimated that $1.0M of this will be written off and this is provided for in the programmed expenses.

4.04.05 Bulk Plant Land and Improvements

The Net Book Value of all owned land and improvement is:

Land	$1.5M
Improvements	$4.8M
	$6.3M

This does include only Bulk Plant involved in Commission operations. All Bulk Plants leased to buy-sell distributors (140 such plants) should be sold to the distributors, if owned or leases assigned, if leased, to eliminate ARCO's liability for compliance with OSHA or EPA.

4.04.06 Service Station Land and Improvements

The net book value of fee owned service stations or the capitalized value of leaseholds for certain service stations delivered by Commission Agents is unknown at this time since these will only be identified in the individual evaluation process. If any such investment is included in the Commission evaluation (case 1) it will also be included in the Direct evaluation (case 2) as will the volume, revenue and rental income or payments.

4.04.07 Accounts Receivable

Outstanding balance on accounts receivables is estimated to be approximately $18.2M at any one time for the 760M gallons which are Commission delivered.

This number was developed by sampling certain plants for outstanding receivables and relating this to volume.

	¢ Cents Per Gallon		000 Annual Volume		Accounts Receivables
West	2.95	x	360M	=	$10,620,000
East	1.89	x	400M	=	$ 7,560,000
Total	2.31	x	760M	=	$18,180,000

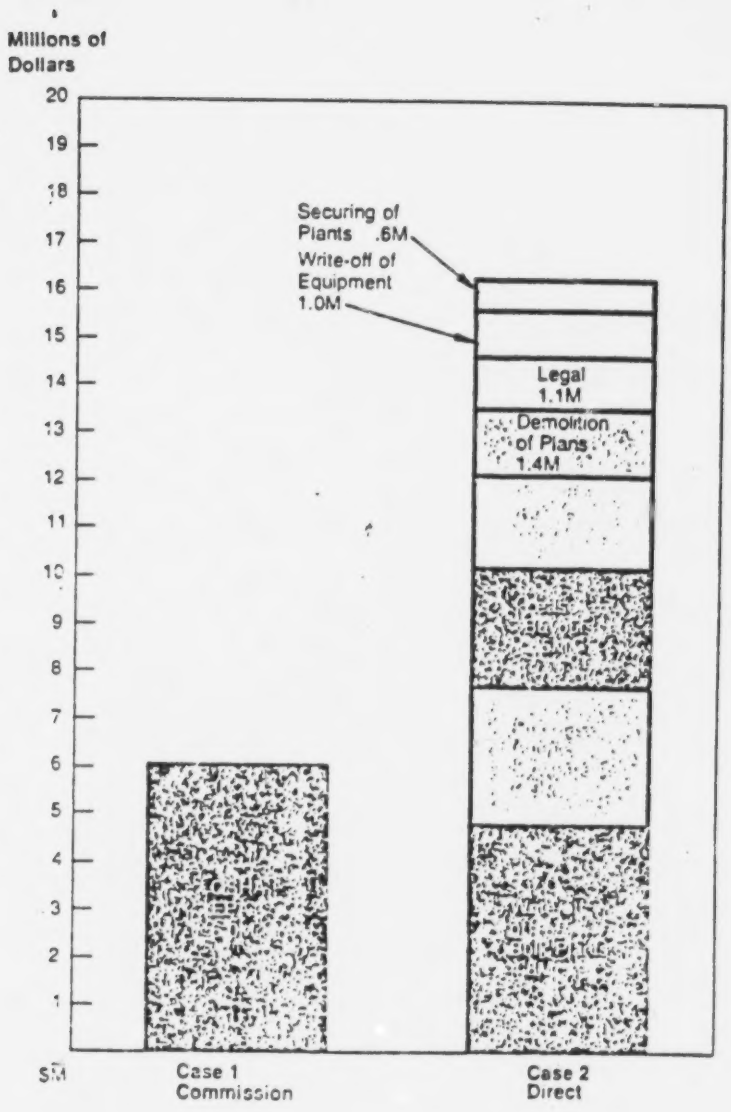
· 4.04.08 **Inventories**

Amount of outstanding inventory at any one time is estimated at 8.8\overline{M}$. This figure was developed by sampling the amount of plant inventory on hand at plants in both East and West. (8.04) Inventory levels for individual plant evaluations are estimated on a % of inventory times potential storage capacity and valued at current costs. The plant sampling indicates 45% of inventory value is in lubricating oils of which some will continue to be carried at terminals. Since lube inventories are already on hand at terminals it is estimated that only 30% of lube inventory value would need to remain as a working capital investment in Case 2. (8.04.01)

Inventory on Hand

Plants Retained	Plants Closed
8.8\overline{M}$	1.2\overline{M}$

4.05 Non-Recurring Expenses



4.05 Nonrecurring Expenses

Prevailing legal opinion holds that ARCO is obligated to purchase from the Commission Agent any rolling stock, marketing equipment, office furniture, office machines, or other investment made by the Commission Agent in the course of his conduct of delivery of petroleum products on ARCO's behalf. The price paid to be at fair appraised value as determined by an impartial third party. (8.05)

It is not intended that ARCO will retain title to any of this equipment except on an interim basis. Certain acceptable rolling stock may be selected by Distribution as usable until such time as it can be replaced by new trucks at which time it will be sold in the normal manner at the highest possible return.

All other equipment installed at customer locations will be sold immediately for the best price to eliminate any liability attendant with ownership of this type of property. It is understood that whenever a sale can be arranged directly between a Commission Agent and a third party for any of the above, such sale shall take place, eliminating ARCO from any interim ownership.

Any such expenditure is deemed a nonrecurring expense item and is charged to the project in the year it occurs.

4.05.01 Trucks Purchased from Commission Agent

This is estimated to cost 3.8\bar{M}$ with salvage value within 12 months of $1.9. (8.02)

4.05.02 Marketing Equipment Purchased from Commission Agent

This is estimated to cost 2.9\bar{M}$ with no salvage value. (8.02)

4.05.03 Lease Buyout

This is estimated to cost 2.5\bar{M}$ and represents considerations to terminate undesirable leaseholds which ARCO may acquire as well as reimbursement to the Commission Agent for unauthorized improvements made to the property of others. (8.02)

4.05.04 Book Value Writeoffs

This is estimated to cost 4.8\bar{M}$ and represents the complete writeoff of capital asset value in existing Bulk Plant Improvements.

A Complete writeoff of Bulk Plant improvements is contemplated in view of the industry wide trend to eliminate Bulk Plants as such coupled with the contingent liability attendant with ownership of such properties because of OSHA and EPA. This writeoff is to be accomplished at the time of plant closing and prior to transfer to Commercial Properties if fee or lease termination by Real Estate if leased. Also included is 1.0\bar{M}$ for writeoff of capital asset value in certain marketing equipment already owned by ARCO which will also carry some liability for continued ownership.

4.05.05 **Legal Fees**

It is estimated that an average of $2.0M will be incurred in legal fees and settlements for each Commission Agent termination (8.05).

4.05.06 **Demolition of Bulk Plant Improvements**

It is estimated that demolition of all Bulk Plant Improvements may be necessary at a cost of $3000 each or $1.4M potential total. The decision as to whether this is actually necessary will be made by Commercial Properties if owned after transfer or by Distribution if owned improvements on leased land. (8.09)

4.05.07 **Securing of Bulk Plant Improvements**

It is estimated that a cost of $1250 will be incurred for each plant closed to free storage tanks of product etc. This represents a potential cost of $ .6M and will be incurred independent of any decision on whether to demolish improvements or not. (8.09)

4.05.08 **OSHA, EPA, etc.**
Estimated to cost $6.0M based on plant sampling in each Area of needs already determined. Breakdown by Area listed below:

West	185 plants @ $15,650 each	=	$2.9M
Central	227 plants @ $11,200 each	=	$2.5M
East	37 plants @ $17,000 each	=	$ .6M
Total	**449**	**$13,363**	**$6.0M**

This will occur in first case only if bulk plant system is retained and will be over a two year period.

4.05.09 **TBA Purchases**
It is estimated that a cost of $100,000 will be incurred in buying back TBA merchandise from these Commission Agents. This merchandise will be resold as soon as possible.

4.06.01 **Rate of Return Case 1**

The discounted cash flow AFIT Rate of Return is 11% as indicated in following computer printout.

BO	Beginning of Year Cash Flow	Present Worth Factor	Uniform Annual Cash Flow	Present Worth Factor	Cummulative Cash Flow	Discounted Cash Flow
1	-356.	1.00000	54.	0.95163	-302.	-305.
2	0.	0.90484	51.	0.86107	-251.	-261.
3	0.	0.81873	66.	0.77913	-185.	-209.
4	0.	0.74082	63.	0.70498	-122.	-165.
5	0.	0.67032	61.	0.63789	- 61.	-126.
6	0.	0.60653	-34.	0.57719	- 95.	-146.
7	0.	0.54881	37.	0.52226	- 58.	-126.
8	0.	0.49659	35.	0.47256	- 23.	-110.
9	0.	0.44933	27.	0.42759	4.	- 98.
10	0.	0.40657	25.	0.38690	29.	- 89.
11 Salvage	285.	0.36788	0.	0.35008	314.	- 16.

WA- Worth Equals Zero At Interest Rate of 10.88 Percent.

SLO

4.06 02 **Rate of Return Case 2**

The discounted cash flow AFIT Rate of Return is 26% as indicated in following computer printout.

BO	Beginning of Year Cash Flow	Present Worth Factor	Uniform Annual Cash Flow	Present Worth Factor	Cummulative Cash Flow	Discounted Cash Flow
1	-335.	1.00000	105.	0.88480	-230.	-242.
2	25.	0.77880	48.	0.68908	-157.	-190.
3	0.	0.60653	138.	0.53666	-19.	-115.
4	0.	0.47237	129.	0.41795	110.	-62.
5	0.	0.36756	121.	0.32550	231.	-22.
6	0.	0.28650	-40.	0.25350	191.	-32.
7	-22.	0.22313	78.	0.19742	247.	-22.
8	-71.	0.17377	82.	0.15375	258.	-22.
9	0.	0.13534	69.	0.11974	327.	-13.
10	0.	0.10540	59.	0.09326	386.	-8.
11	234.	0.08208	0.	0.07263	620.	11.

WA- Worth Equals Zero At Interest Rate of 26.18 Percent

...01 Net Present Value

... Net Present Value of the AFIT cash inflow and cash outflow discounted at 10% is ...

... Net Present Value of the AFIT cash inflow and outflow discounted at 12% is $20.0M

...uthorization Title Bulk Plant Profitability Project

...resent Value and Discounted Cash Flow Worksheet

Timing		Undiscounted ($M)		10% Discount Rate ($M)				12.4% Discount Rate ($M)				Comments
...al-...ndar ...ear	Pro-...ject Period	Investment Outflow	Cash In	Factor		Present Value		Factor		Present Value		
				Outflow Instant	Inflow Uniform	Outflow Instant	Inflow Uniform	Outflow	Inflow	Outflow	Inflow	
...73	1	33.5	10.5	1.0000	.9516	33.5	10.0	1.0000	.9423	-33.5	9.9	
...75	2	2.5	4.8	.9048	.8611	2.3	4.1	.8869	.8358	2.2	4.0	
...77	3	0	13.8	.8187	.7791	0	10.8	.7866	.7413	0	10.2	
...77	4	0	12.9	.7408	.7050	0	9.1	.6977	.6574	0	8.5	
...78	5	0	12.1	.6703	.6379	0	7.7	.6188	.5831	0	7.1	
...79	6	0	1.0	.6065	.5772	0	-2.3	.5488	.5172	0	-2.1	
...0	7	2.2	7.8	.5488	.5223	-1.2	4.1	.4868	.4587	-1.1	3.6	
...1	8	7.1	8.2	.4966	.4726	-3.5	3.9	.4317	.4068	-3.1	3.3	
...2	9	0	6.9	.4493	.4276	0	2.9	.3829	.3608	0	2.5	
...3	10	0	5.9	.4066	.3863	0	2.3	.3396	.3200	0	1.9	
Residual Value		**Timing**										
3.5		1981	11	2.3	–	3.501	0	8.2	–	.2838	0	6.6	–
							-35.9	60.8			-35.5	55.5	
							24.9				20.0		

Present Value

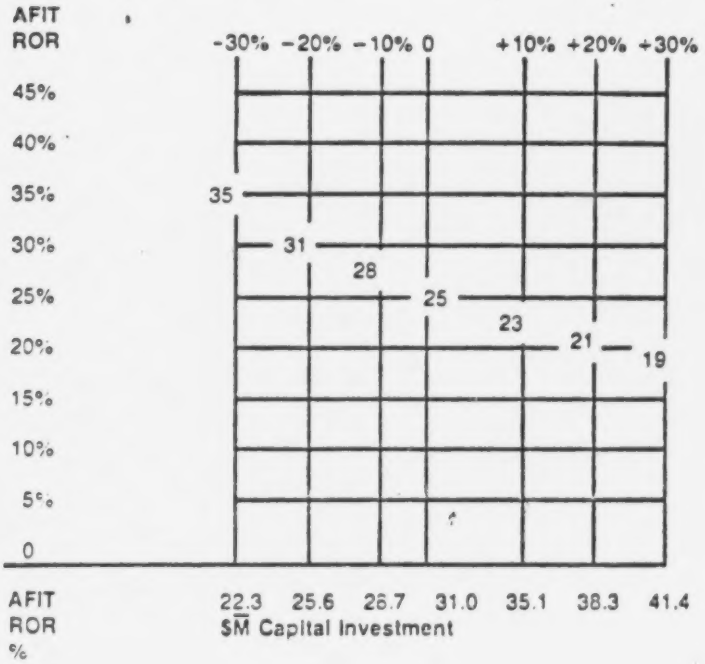
$10 + \frac{(12-10)\,24.9}{(24.9-20.0)} = +20$ $\quad PI_{10} = \frac{60.8}{35.9} = 1.6936$ $\quad PI_{12} = \frac{55.5}{35.5} = 1.5638$

Prepared by R. D. Shelton

Date

4.07.02 **Capital Investment Variations**

A range of Capital Investment total from 30% less than anticipated to 30% more than anticipated in employed resulting in AFIT Rates of Return ranging from a high of 35% to a low of 19%.



4.08 Risk Analysis

4.08.01 Project must be completed during period of product tightness to prevent loss of desirable volume.

4.08.02 Project could be interrupted by governmental intervention on behalf of Commission Agents.

4.08.03 Commission Agents as a Class or individually could attempt to enjoin ARCO from proceeding with project.

4.08.04 Proof of economic justification by ARCO in court might necessitate revealing sensitive information such as sales volume internal values, etc.

4.08.05 Each Commission Agent is an increment and therefore the project need be committed only on increment by increment basis.

5.00 **Project Plan and Budget**

5.01 Each evaluation to be made on a standard format comparing the relative profitability and Rate of Return of the Commission Operation with the relative profitability and Rate of Return of a Direct Operation. (8.03)

5.02 Each evaluation will be made using 1972 volume, 1973 realizations, and 1973 product costs to reflect the most current picture.

5.03 The timetable for the project is as follows: (5.04)

5.03.01 May 1, 1973 — October 31, 1973
Staffing of project group and preparation of the program AFE.

5.03.02 September, 1973 — August 31, 1974
Completion of individual evaluations on each Commission Operation on terminal by terminal basis.

5.03.03 January, 1974 — December, 1975
Terminations of individual Commission Operations as a result of the completed evaluations with 120 terminations estimated in 1974 and 400 terminations estimated in 1975.

Gantt Chart

10 Year Project

Actual Year	1973	0	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Project Year	-1	0	1	2	3	4	5	6	7	8	9	10	Salvage
Project Planning													
Project AFE Preparation													
Project AFE Approval													
Individual Evaluations													
Commission Agent Terminations													
Manpower Additions													
Programmed Expense													
Capital Expenditures													
Plant Securing													
General Operating Expenses													
General Operating Income													
Legal Fees													
Plant Demolition													
Sale of Land													
Salvage													

5.04.01 **Termination Schedule**

1974

Month	Terminals	Number
January	San Diego	1
January	Vinvale	4
January	Washington/Alameda (LA)	9
February	Bakersfield	12
March	Richmond	13
April	Portland	12
May	Portland	12
June	Portland	12
July	Milwaukee, Wisc.	4
July	Madison, Wisc.	8
		10
August	Green Bay, Wisc.	21
September	Des Plaines, Ill.	6
September	Forest View, Ill.	1
September	Rockford, Ill.	5
September	East Chicago, Ill	6
October	Seattle, Wash.	21
November	Spokane, Wash.	11
November	Eugene, Oregon	9
December	Sacramento, Calif.	14
December	San Jose, Calif.	7
		137
Total West		53
Total East		190

5.04.02 **Termination Schedule** (Continued)

1975

Month	Terminals	Number
January	Las Vegas, Nevada	2
January	Weson, Arizona	4
January	Phoenix, Arizona	14
February	Colton, Calif.	11
February	Stockton, Calif.	10
March	Reno, Nevada	11
March	Chiniza, N.M.	3
March	Fresno, Calif.	5
April	Louisville, Ky.	25
May	Lansing, Michigan	11
May	Ferrysburg, Mich.	7
May	Traverse City, Mich.	6
May	Alma, Michigan	6
June	Dearborn, Mich.	16
June	Toledo, Ohio	6
July	New Goshen, Indiana	10
July	South Bend, Indiana	18
August	Clermont, Indiana	13
August	Chillicothe, Ill.	13
September	Dayton, Ohio	12
September	Columbus, Ohio	14
October	Boston Heights, Ohio	10
October	Bryan, Ohio	13
November	Nashville, Tenn.	8
November	Knoxville, Tenn.	8
December	Memphis, Tenn.	6
December	Chattanooga, Tenn.	7
December	Steubenville, Ohio	6
Total East		215
Total West		60
		275

5.05 **Criteria for Conversion**

If the incremental Rate of Return is in excess of 10% (AFIT), then it shall be deemed desirable to eliminate that particular Commission Operation in favor of Direct Delivery. Incremental Rate of Return shall be defined as Rate of Return earned by the additional cash flow on the additional investment.

5.05

Capital and Expense
Bulk Plant Profitability Project
Entire Project

Scheduled Terminations	**West** 215 $M	**Central** 278 $M	**East** 78 $M	**Total** 571 $M
Capital				
1) New Delivery Trucks	4.0	5.0	1.3	10.3
2) Real Property Purchased from Commission Agents	2.7	3.3	.9	6.9
3) Immediate Sale of Item 2 at 70% of Purchase Price	(1.9)	(2.3)	(.6)	(4.8)
4) Sale of Existing Bulk Plant Land	(.8)	(.5)	(.2)	(1.5)
Net Capital	4.0	5.5	1.4	10.9
Expense (Non-recurring)				
1) Trucks Purchased from Commission Agents	1.5	1.8	.5	3.8
2) Immediate Sale of Item 1 at 50% of Purchase Price	(.7)	(.9)	(.3)	(1.9)
3) Marketing Equipment Purchased from Commission Agents	1.1	1.4	.4	2.9
4) TBA Purchased from Commission Agents	.1	0	0	.1
5) Lease Termination Penalties	1.0	1.2	.3	2.5
6) Write-off of Bulk Plant P&E	2.0	2.2	.6	4.8
7) Write-off of Existing Equipment	.4	.5	.1	1.0
8) Demolition of Bulk Plant P&E	.6	.6	.2	1.4
9) Securing of Bulk Plants	.3	.2	.1	.6
10) Legal Expenses	.4	.5	.2	1.1
Net Expense	6.7	7.5	2.1	16.3

5.05.01

Capital and Expense
Bulk Plant Profitability Project
1973

Scheduled Terminations	**West** 35	**Central** 12	**East** 4	**Total** 51
Capital	$\overline{SM}$	$\overline{SM}$	$\overline{SM}$	$\overline{SM}$
1) New Delivery Trucks	.4	0	0	.4
2) Real Property Purchased from Commission Agents	.2	0	0	.2
3) Immediate Sale of Item 2 at 70% of Purchase Price	(.2)	0	0	(.2)
4) Sale of Existing Bulk Plant Land	0	0	0	0
Net Capital	.4	0	0	.4
Expense (Non-recurring)				
1) Trucks Purchased from Commission Agents	.2	0	0	.2
2) Immediate Sale of Item 1 at 50% of Purchase Price	(.1)	0	0	(.1)
3) Marketing Equipment Purchased from Commission Agents	.2	0	0	.2
4) TBA Purchased from Commission Agents	0	0	0	0
5) Lease Termination Penalties	.1	0	0	.1
6) Write-off of Bulk Plant P&E	.4	0	0	.4
7) Write-off of Existing Equipment	0	0	0	0
8) Demolition of Bulk Plant P&E	.1	0	0	.1
9) Securing of Bulk Plants	.1	0	0	.1
10) Legal Expenses	.1	0	0	.1
Net Expense	1.1	0	0	1.1

5.05.02

Capital and Expense
Bulk Plant Profitability Project
1974

Scheduled Terminations	West 74 $M	Central 45 $M	East 1 $M	Total 120 $M
Capital				
1) New Delivery Trucks	1.7	1.1	0	2.8
2) Real Property Purchased from Commission Agents	1.2	.7	0	1.9
3) Immediate Sale of Item 2 at 70% of Purchase Price	(.8)	(.5)	0	(1.3)
4) Sale of Existing Bulk Plant Land	(.5)	0	0	(.5)
Net Capital	1.6	1.3	0	2.9
Expense (Non-recurring)				
1) Trucks Purchased from Commission Agents	.6	.4	0	1.0
2) Immediate Sale of Item 1 at 50% of Purchase Price	(.3)	(.2)	0	(.5)
3) Marketing Equipment Purchased from Commission Agents	.4	.3	0	.7
4) TBA Purchased from Commission Agents	.1	0	0	.1
5) Lease Termination Penalties	.4	.2	0	.6
6) Write-off of Bulk Plant P&E	.7	.4	0	1.1
7) Write-off of Existing Equipment	.2	.1	0	.3
8) Demolition of Bulk Plant P&E	.2	.1	0	.3
9) Securing of Bulk Plants	.1	.1	0	.2
10) Legal Expenses	.1	.1	0	.2
Net Expense	2.5	1.5	0	4.0

5.05.03

Capital and Expense
Bulk Plant Profitability Project
1975

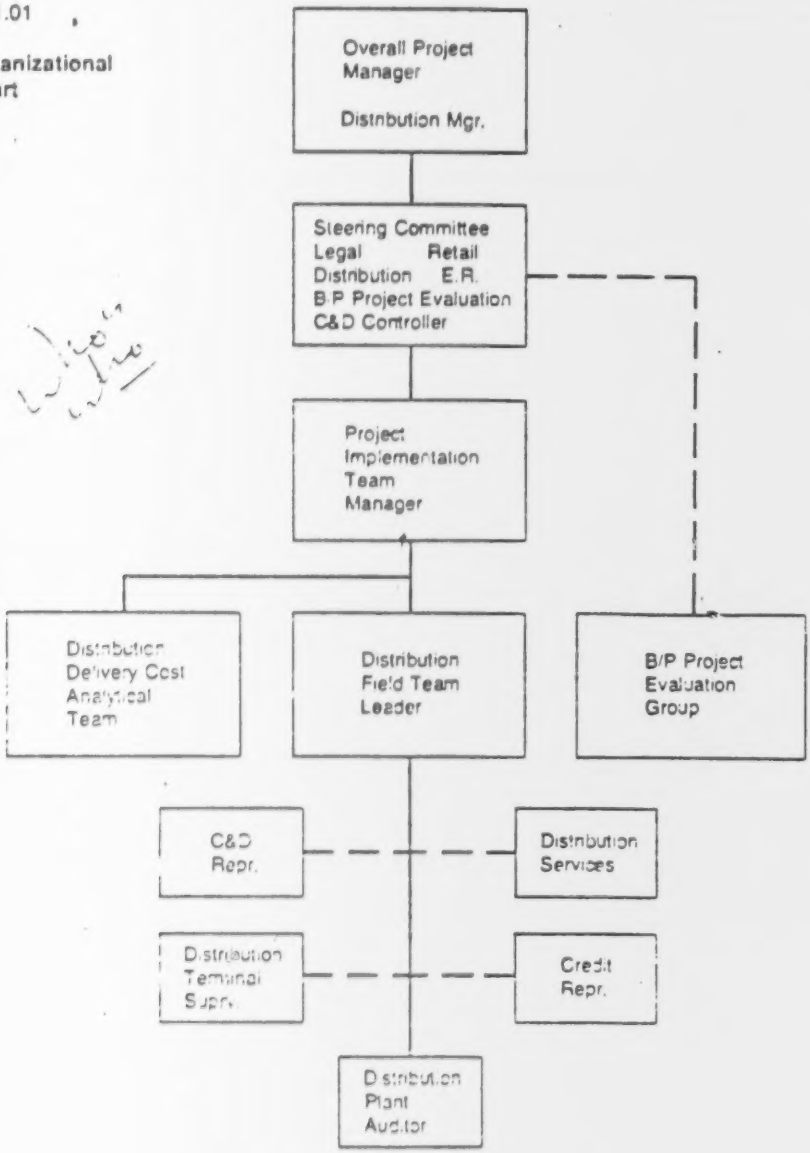
Scheduled Terminations	West 108 $M	Central 219 $M	East 74 $M	Total 400 $M
Capital				
1) New Delivery Trucks	1.9	3.9	1.3	7.1
2) Real Property Purchased from Commission Agents	1.3	2.6	.9	4.8
3) Immediate Sale of Item 2 at 70% of Purchase Price	(.9)	(1.8)	(.6)	(3.3)
4) Sale of Existing Bulk Plant Land	(.3)	(.5)	(.2)	(1.0)
Net Capital	2.0	4.2	1.4	7.6
Expense (Non-recurring)				
1) Trucks Purchased from Commission Agents	.7	1.4	.5	2.6
2) Immediate Sale of Item 1 at 50% of Purchase Price	(.3)	(.7)	(.3)	(1.3)
3) Marketing Equipment Purchased from Commission Agents	.5	1.1	.4	2.0
4) TBA Purchased from Commission Agents	0	0	0	0
5) Lease Termination Penalties	.5	1.0	.3	1.8
6) Write-off of Bulk Plant P&E	.9	1.8	.6	3.3
7) Write-off of Existing Equipment	.2	.4	.1	.7
8) Demolition of Bulk Plant P&E	.3	.5	.2	1.0
9) Securing of Bulk Plants	.1	.1	.1	.3
10) Legal Expenses	.2	.4	.2	.8
Net Expense	3.1	6.0	2.1	11.2

6.00 Project Management and Organization

The Bulk Plant Profitability Project has been initiated by the Special Projects Section of Marketing Services who will provide continuing support throughout the project to completion.

6.01.01

Organizational Chart



6.02 Departmental Impact

6.02.00 Steering Committee

1. **Responsibilities**
A. Formulate Policy
B. Settle Disputes

2. **Favorable Impact**
A. Involve all Concerned Departments

3. **Unfavorable Impact**
A. None

4. **Manpower**

Retail	1
Distribution	1
C&D	1
Legal	1
Employee Relations	1
Marketing Services	1
Controller	1

6.02.01 **Marketing Services — Project Evaluation Planning Group**

1. **Responsibilities**

A. Plan Project

B. Formulate Evaluation Procedure

C. Prepare Program AFE

D. Participate on Steering Committee

E. Coordinate Project Implementation

F. Furnish Evaluation Results to Project Manager for Action

G. Perform Individual Evaluation

2. **Favorable Impact**

A. Actual Rate of Return on Existing Operation Revealed

3. **Unfavorable Impact**

A. Project cost of $50M

4. **Manpower**

Four people involved with no increase or decrease anticipated.

	Time Involved
Special Project Manager	50%
Analyst	100%
Analyst	100%
Secretary	50%

6.02.02 **Distribution**

1. **Responsibilities**

A. Manage entire project (8.13)

B. Chair and participate on Steering Committee

C. Provide delivery capability

D. Provide delivery cost input to Project Evaluation Group. (8.11)

E. Act on results of individual evaluations

F. Participate on Negotiating Team

G. Coordinate physical closing of plants

H. Transfer plants to Commercial properties via real estate

I. Insure lease is terminated if leased via real estate

J. Initiate all fund requests for capital or expense (7.02.02)

2. Favorable Impact

A. Overall reduction in total delivery costs if commissions are recognized as part of the delivery cost of transferring products from terminal to customer.

B. Simplified and direct control over complete delivery system.

3. Unfavorable Impact

Additional delivery costs exclusive of commissions and need for capital in amount of $10.3M for new delivery equipment. (8.01)

4. Manpower (8.01)

Additional manpower with annual expense:	$M
1. 480 drivers	7.2
2. 175 dispatchers	2.6
3. 132 clerks	2.0
4. 54 auto mechanics	.8
841	12.6

6.02.03 IC&D

1. Responsibilities

A. Participate on Steering Committee

B. Provide accurate information input on termination costs to Project Evaluation Group. (8.12)

C. Joint negotiate with Commission Agent for termination costs.

D. Coordinate the actual termination with Legal and Distribution.

E. Provide sales effort as needed to customers after change in delivery method.

2. Favorable Impact

A. Profit improvement on delivered volume.

B. Direct contact with customers

C. Simplified sales system

D. Less ticket errors

3. Unfavorable Impact

A. Loss of local relationship with customer

B. More direct sales effort needed

C. Increased credit collection effort

D. Loss in lubricating oil sales

4. Manpower

No increase or decrease anticipated.

6.02.04 **Retail**

1. **Responsibilities**

A. Provide information input to Project Evaluation Group on potential termination costs connected with Retail. (8.12)

B. Process through Real Estate Department any proposals to either purchase or lease existing Retail Outlets as determined by Negotiating Team.

C. Process transfer of Bulk Plants to Commercial properties or insure lease termination on leased properties.

D. Write off value of improvements in Bulk Plants prior to transfer to Commercial Properties.

E. Disposal of all owned real properties through Commercial Properties.

F. Participate on Negotiating Team.

G. Participate on Steering Committee.

2. **Favorable Impact**

A. Improvement in profitability on volume now delivered by Commission Agent.

B. Elimination of bypass commissions now paid on volume delivered by ARCO.

C. Direct control over all Retail Outlets accepted as Lessee Dealer units now controlled by Commission Agent.

3. **Unfavorable Impact**

A. Retail may have to accept some Retail Outlets into the Lessee Dealer inventory which normally would not be acceptable.

B. It may be necessary to purchase or assume the lease on some properties which will be sold immediately at a loss or require a lease buyout.

C. More direct sales effort required on some outlets formerly supervised by the Commission Agent.

D. Loss of TBA sales.

4. **Manpower**

No increase or decrease anticipated.

6.02.05 **Legal**

1. **Responsibilities**

A. Participate on Steering Committee

B. Provide legal advice

C. Prepare and send termination notice on request from C&D (8.14)

D Prepare releases for execution by Commission Agent.

2. **Favorable Impact**

A. None

3. **Unfavorable Impact**

A. Increased workload

4. **Manpower**

A. No increase or decrease anticipated

6.02.06 **Employee Relations**

1. **Responsibilities**

A. Provide manpower to Distribution as needed

B. Maintain records on manpower added for project

C. Participate on Steering Committee

D. Provide manpower levels and cost incurred to date on request.

7.00 Reports and Controls

7.01 Reports

7.01.01 Reports to be issued are:

1. Agent status report

Monthly issue
Prepared by Project Evaluation Group
Distributed on request
Data Source C&D

2. Expenditure Against Projections

Quarterly issue
Prepared by Project Evaluation Group
Distributed to recipients of original AFE
Data Source — Systems

3. Program AFE Update

Quarterly issue
Prepared by Project Evaluation Group
Distributed to recipients of original AFE
Data Source — various

7.02 Controls

7.02.01 Manpower

Approval to add people as needed responsibility of Employee Relations on Distribution's request who will determine if needs coincide with economic justifications on a terminal by terminal basis.

7.02.02 Capital Expenditures

Annual Capital expenditures for new delivery equipment shall be initiated by Distribution and shall be examined by Manager, Capital Utilization to see if they coincide with the need on a terminal by terminal basis.

Individual AFE's as such will be necessary and an individual economic justification shall be prepared and filed by Bulk Plant Project Evaluation Group in each instance where capital is to be spent. (8.04) Approval of funds against the program AFE to be in line with the amounts authorized by the Delegation of Authority manual. All such expenditures to be coded to proper accounts and Cost Centers established to allow for post audit monitoring at any point in time.

Where capital is to be spent for purchase of land or buildings from Commission Agent to be retained as Lessee Dealer stations, this shall be initiated by Retail through the normal Real Estate process with supporting economic justification prepared by the Bulk Plant Project Evaluation Group. A separate AFE shall be prepared by Real Estate referenced to the project and with justification attached for support. Funds to be charged to normal site acquisition budget.

7.02.03 Programmed Expense

All requests for expense funds to be initiated by Distribution with approval by the appropriate level of management as indicated in the Delegation of Authority Manual.

Individual AFE's shall be necessary, and an economic justification shall be prepared (8.03) indicating amounts of program expense anticipated. All such expense shall be coded to proper accounts and Cost Centers set up for this purpose to allow post audit monitoring at any point in time.

If the total expense expenditure is to exceed the amount specified in the economic justification by more than 10% then prior written approval for the original approver and a revised economic justification will be necessary.

7.02.04 Personal Property Accounting

Trucks purchased from Commission Agents shall be recorded by the Motor Vehicle section of Distribution and a monthly report furnished on the current status of all such equipment.

Equipment purchased from Commission Agents shall be recorded by either Retail or C&D and a periodic status report made on its ultimate disposition.

TBA purchased from Commission Agents shall be recorded by the TBA Area Office and a periodic report made on its ultimate disposition.

8.00 **Supporting Data and Exhibits**

8.01 **Distribution Overview**

8.01.01 Distribution Impact

8.01.02 Delivery Cost Projections

8.01.03 Delivery Commissions

8.02 **Expense Projections (Buyouts)**

8.02.01 Expense Projections Operating Case 1

8.02.02 Expense Projections Operating Case 2

8.03 **Summary Sheet Example**

8.03.01 Expense Sheet Example

8.03.02 Cash Flow Sheet Example

8.03.03 Work Sheet Example

8.03.04 Depreciation Schedule Example

8.03.05 Zone Region Input Example

8.03.06 Delivery Cost Input Example

8.03.07 Commission Expense Statistic Example

8.04 **Inventory Projections**

8.04.01 Inventory Value Projections

8.05 **Legal Correspondence**

8.06 **Letter to Customer Example**

8.07 **Termination Notice Example**

8.08 **Administrative Savings**

8.09 **Bulk Plant Closing Expenses (Physical)**

8.10 **Manpower Overview**

8.11 Rate of Return Projections Case 1

8.11.01 Rate of Return Projections Case 2

RECEIVED
OCT 5 1973
W. L WARRICK

Date: Octob_ 4, 1973

To: W. L. Warrick

From: W. D. Nix

Subject: BULK PLANT VOLUME REDUCTION

8.0101

As a result of the bulk plant volume change from 900,000 to 760,000 gallons annually, the impact on Distribution will be adjusted as follows:

	Original Estimate		Present Estimate	
	Equipment & Manpower	$(000)	Equipment & Manpower	$(000)
Drivers	572	8,580	480	7,200
Dispatchers	210	3,150	175	2,625
Clerks	157	2,355	132	1,980
Auto Mechanics	54	810	45	675
Truck & Trailer	5	300	5	300
Bobtail Trucks	277	11,080	232	9,280
Package Trucks	44	880	37	740
Time Clerks	(7)	(105)	(7)	(105)

W. D. Nix

W. D. Nix

WDN:fch

cc: W. M. Witten

Projected Delivery Costs Based on Known Random Cases

Plant	Annual Volume	Case 1 (Commission) Terminal to Bulk Plant		Bulk Plant to Customer		Total Delivery Cost (As Is)		Case 2 (Direct) Terminal to Customer		Distribution Clerical		Total Delivery Cost (Future)	
	M	$M	c	$M	c	$M	c	$M	c	$M	c	$M	c
Anaheim, Cal	44	18 5		109 6		128 1	2 91	55 0		26 7		81 7	1 86
Escondido, Cal	24	8 1		71 8		79 9	3 33	19 9		14 4		34 3	1 43
Orc.anade, Cal	25	14 8		73 1		87 9	3 52	34 3		15 1		49 4	1 98
San Diego, Cal	40	5 8		103 3		109 1	2 73	60 8		24 3		85 1	2 13
San Luis Obispo, Cal	7	9 7		37 9		46 7	6 67	18 5		4 4		22 9	3 27
Paso Robles, Cal	17	17 8		75 4		93 2	5 48	27 7		10 7		38 4	2 26
Jamestown, Cal	24	15 2		57 7		72 9	3 47	32 0		12 6		44 6	2 12
Lodi, Cal	23	9		31 4		32 3	1 40	21 6		14 0		35 6	1 54
Woodland, Cal	22	7 5		81 3		88 8	4 04	37 1		13 2		50 3	2 29
Santa Barbara, Cal	21	22 0		88 2		110 2	5 25	59 6		12 9		72 5	3 45
Camarillo, Cal	24	15 3		136 0		151 3	6 30	48 7		14 6		63 3	2 64
Ventura, Cal	8	7 4		46 8		54 2	6 78	17 4		4 9		22 3	2 79
Redding, Cal	14	9 9		43 0		52 9	3 78	38 1		8 6		46 7	3 34
Concord, Wash	37	11 9		145 5		157 4	4 25	37 2		22 8		60 0	1 62
Vancouver, Wash	30	10 7		74 4		85 1	2 84	28 0		18 3		46 3	1 54
Port Angeles, Wash	61	76 4		150 7		227 1	3 72	174 0		37 2		211 2	3 46
Renton, Wash	24	5 9		64 9		70 8	2 95	28 1		14 6		42 7	1 78
Seattle, Wash	15	0		36 3		36 3	2 42	15 6		9 1		24 7	1 65
Bremerton, Wash	31	24 6		84 0		108 6	3 50	45 6		18 9		64 5	2 08
Sumner, Wash	47	18 7		119 2		137 9	2 93	52 5		28 9		81 4	1 73
Tacoma, Wash	12	7 1		29 6		36 7	3 05	7 4		13 0		20 4	1 70
Southern Idaho	111	87 0		218 4		305 4	2 75	173 6		67 7		241 3	2 17
Gladstone, Ore	20	7 9		64 2		72 1	3 61	35 6		12 2		47 8	2 39
Stafford, Ariz	16	4 7		36 7		41 4	2 58	30 2		9 8		40 0	2 50
Bisbee, Ariz	25	27 7		66 8		94 5	3 78	54 9		15 2		70 1	2 80
Casa Grande, Ariz	17	11 4		46 4		57 8	3 40	24 1		10 4		34 5	2 02
Tucson, Ariz	9	1 5		22 3		23 8	2 64	9 9		5 5		15 4	1 71
Total	745	448.4	.60	2,114.0	2.84	2,562.4	3.44	1,187.4	1.59	454.4	.61	1,641.8	2.20
Projected Over 757 M Gallons	757	4542	.60	21490	2.84	6691	3.44	12036	1.59	4617	.61	16653	2.20
Adjusted to Known Cases	757	4500	.60	19400	2.56	23900	3.16	12000	1.59	4600	.61	16600	2.20

5.01.03

Estimated Commissions

Area	Estimated Volume	Estimated Commissions $	c
East	70M	1.6M	2.29c
Central	330M*	7.8M	2.35c
West	357M	10.0M	2.80c
Total	757M	19.4M	2.56c

* 1972 Volume unknown — 1971 volume as listed below adjusted for 1972 based on known commissions

Class of Trade

Lessee Dealer	121.9M	1.2M	1.98
Contract Dealer	139.1M	2.1M	1.51
Other	269.8M	6.5M	2.41
Total	530.8M	9.8M	1.85

J. S. Morrison

Date: April 7, 1975

To: James S. Morrison

From: Bill Duke, Washington

Subject: CONGRESSIONAL CONTACTS ON BULK PLANT CLOSINGS

Mr. Gendron suggested that I forward a copy of the attached list of key members of the House of Representatives and of the Senate for your information in relation to the decisions made to proceed with bulk plant closings.

Hopefully, we can ease the usual trauma in Congressional offices somewhat by explaining our actions to congressional representatives simultaneous with--or prior to--the company's official announcement to the bulk plant operators involved. In some instances this should be able to reduce the flak from at least the key members involved.

The attached list includes most, but not all, of the members who hold positions of leadership or influence, or who by virtue of their swing positions on critical committees, are crucial to any legislative program involving the energy industries.

If any of our closing decisions affect these districts, we would be very anxious to attempt to get our story told before the fact.

In an attempt to further narrow the focus, I have taken the liberty of placing plus signs in front of the members who are of special concern to us at this time. As noted, the asterisks indicate members who represent a substantial number of ARCO employees.

Any advance notification of actions affecting these districts would be very much appreciated. We will coordinate the timing with people in your department to assure that no untimely leak occurs.

WED:cl

cc: J. W. Gendron
C. A. Walsh
E. E. Clark
J. Kowal
R. E. Herzog
P. D. Helmig
Washington Staff

DEFENDANT'S EXHIBIT 1

Defendant's EXHIBIT No. 18
FOR IDENTIFICATION
March 16, 1977
GLENDA B. WILCOX, N.P.
WITNESS J. S. Morrison

KEY MEMBERS OF THE HOUSE OF REPRESENTATIVES

Alaska

*Don Young (R-AL) Interior, Merchant Marine & Fisheries

Arizona

John Rhodes (R-1, Mesa, part of Phoenix, part of Scottsdale) Minority Leader
Morris K. Udall (D-2, Tuscon) Interior
+ Sam Steiger (R-3, Flagstaff, part of Phoenix) Interior

California

*Glenn M. Anderson (D-32, part of L. A., Long Beach, Carson) Merchant Marine & Fisheries
*Alphonzo Bell (R-27, L. A.) Sci & Tech Energy subcommittees
+ Philip Burton (D-6, San Francisco) Interior, Demo. Caucus Leader
Don H. Clausen (R-2, Crescent City) Interior
Del Clawson (R-33, Downey) Rules
+ *James C. Corman (D-21, L. A.) Ways & Means
*Barry Goldwater, Jr. (R-20, L. A.) Sci & Tech Energy
+ Harold T. Johnson (D-1, Roseville) Interior
William M. Ketchum (R-18, Bakersfield) Interior
Robert J. Lagomarsino (R-19, Santa Barbara) Interior
+ John McFall (D-14, Stockton) Majority Whip
B. F. Sisk (D-15, Fresno) Rules
Lionel Van Deerlin (D-42, San Diego) Interstate & Foreign Commerce
Carlos Moorhead (R-22, Pasadena) Commerce

Colorado

*James P. Johnson (R-4, Fort Collins) Interior

Florida

Sam Gibbons (D-7, Tampa) Ways and Means
James A. Haley (D-8, Sarasota) Chairman, Interior
Claude Pepper (D-14, Miami) Rules

Georgia

Phil M. Landrum (D-9, Gainesville) Ways and Means

Idaho

+ Steven D. Symms (R-1, Lewiston) Interior

Illinois

+ John B. Anderson (R-16, Rockford) Rules
+ Philip M. Crane (R-12, Arlington Heights) Ways and Means
+ Abner J. Mikva (D-10, Evanston) Ways and Means

Indiana

+ Andrew Jacobs, Jr. (D-11, Indianapolis) Ways and Means
+ Ray J. Madden (D-1, Gary) Chairman, Rules

Kansas

Martha Keys (D-2, Topeka) Ways and Means
+ Keith G. Sebelius (R-Salina) Interior
+ Joe Skubitz (R-5, Pittsburg) Interior; Interstate & Foreign Commerce

Key Members of the House of Representatives
page 2

Louisiana		Gillis W. Long (D-8, Alexandria) Rules
		David C. Treen (R-3, Metairie) Merchant Marine & Fisheries
	+	Joe D. Waggonner, Jr. (D-4, Shreveport) Ways and Means
Maine		David F. Emery (R-1, Portland) Sci & Tech Energy (Fossil Fuels)
Maryland		Robert E. Bauman (R-1, Cambridge) Interior
		Goodloe E. Byron (D-6, Cumberland) Interior
Massachusetts		James A. Burke (D-11, Boston (part)) Ways and Means
Michigan	+	John D. Dingell (D-16, Detroit) Interstate & Foreign Commerce; M.M. & F.
		Philip E. Ruppe (R-11, Marquette) Interior; Merchant Marine & Fisheries
		Guy Vander Jagt (R-9, Muskegon) Ways and Means
Mississippi		Trent Lott (R-5, Gulfport) Rules
Montana	+	John Melcher (D-2, Billings) Interior
Minnesota		Bill Frenzel (R-3, Minneapolis) Ways and Means
	+	Joseph E. Karth (D-4, St. Paul) Ways and Means
Nevada		Jim Santini (D-AL) Interior
New Jersey		Henry Helstoski (D-9, Bergenfield) Ways and Means
New Mexico		*Manuel Lujan, Jr. (R-1, Albuquerque) Interior
		*Harold Runnels (D-2, Roswell) Interior
New York		Jonathan B. Bingham (D-22, Bronx) Interior
	+	Barber B. Conable, Jr. (R-35, Rochester) Ways and Means
	+	James F. Hastings (R-39 Elmira) Interstate & Foreign Commerce
		Otis G. Pike (D-1, South Stony Brook) Ways and Means
North Carolina		James T. Broyhill (R-10, Gastonia) Interstate & Foreign Commerce
		Roy A. Taylor (D-11, Asheville) Interior
Oklahoma	+	James R. Jones (D-1, Tulsa) Ways and Means
Ohio	+	Clarence J. Brown (R-7, Springfield) Interstate & Foreign Commerce
		Donald D. Clancy (R-2, Cincinnati) Ways and Means
	+	Samuel F. Devine(R-12, Columbus) Interstate & Foreign Commerce
		Delbert L. Latta (R-5, Bowling Green) Rules

.Key Members of the House Representatives
page 3

Oregon
+ Al Ullman (D-2, Salem) Chairman, Ways and Means

Pennsylvania
*William J. Green (D-3, Philadelphia) Ways and Means
+ *H. John Heinz (R-18, Pittsburg) Interstate & Foreign Commerce
Fred B. Rooney (D-15, Allentown) Interstate & Foreign Commerce
+ Herman T. Schneebeli (R-17, Harrisburg) Ways and Means
Joseph P. Vigorito (D-24, Erie) Interior

Tennessee
Richard H. Fulton (D-5, Nashville) Ways and Means
Marilyn Lloyd (D-3, Chattanooga) Sci & Tech Energy Subcommittees

Texas
+ *Bill Archer (R-7, Houston) Ways and Means
*James M. Collins (R-3, Dallas) Interstate & Foreign Commerce
Omar Burleson (D-17, Abilene) Ways and Means
+ *Bob Eckhardt (D-8, Houston) Interior
Abraham Kazan, Jr. (D-23, San Antonio) Interior
J. J. Pickle (D-10, Austin) Ways and Means
+ *Alan Steelman (R-5, Dallas) Interior
*Olin Teague (D-6, Dallas) Sci & Tech, Chairman

Virginia
Joseph L. Fisher (D-10, Arlington) Ways & Means

Washington
Brock Adams (D-7, Seattle) Interstate & Foreign Commerce
+ *Mike McCormack (D-4, Yakima) Sci & Tech Energy, Chairman of sub.
+ *Lloyd Meeds (D-2, Everett) Interior

Wisconsin
+ William A. Steiger (D-6, Oshkosh) Ways & Means

Wyoming
Teno Roncalio (D-AL) Interior

KEY MEMBERS OF SEN E

Alaska	*Ted Stevens (R) Commerce *Mike Gravel (D) Finance; Public Works
Arizona	Paul J. Fannin (R) Finance; Interior (ranking)
Arkansas	Dale Bumpers (D) Interior
Delaware	William V. Roth (R) Finance
Florida	Richard B. Stone (D) Interior
Georgia	Herman Talmadge (D) Finance
Idaho	Frank Church (D) Interior James A. McClure (R) Interior; Public Works
Indiana	Vance Hartke (D) Commerce; Finance
Kansas	James B. Pearson (R) Commerce Robert Dole (R) Finance
Louisiana	*J. Bennett Johnston, Jr. (D) Interior *Russell B. Long (D) Commerce; Finance Chairman
Maine	William D. Hathaway (D) Finance
Maryland	J. Glenn Beall, Jr. (R) Commerce
Massachusetts	Edward W. Brooke (R) Banking, Housing & Urban Affairs
Michigan	Robert P. Griffin (R) Commerce; Minority Whip
Montana	Lee Metcalf (D) Interior Mike Mansfield (D) Majority Leader
Nebraska	Carl T. Curtis (R) Finance
Nevada	Howard W. Cannon (D) Commerce
New Mexico	*Joseph M. Montoya (D) Public Works *Pete V. Domenici (R) Public Works
New York	James L. Buckley (R) Commerce; Public Works
Ohio	John Glenn (D) Interior

Key Members of Senate
page 2

Oklahoma	Dewey F. Bartlett (R) Interior
Oregon	Bob Packwood (R) Banking, Housing & Urban Affairs; Finance Mark O. Hatfield (R) Interior
Pennsylvania	Hugh Scott (R) Minority Leader
South Carolina	Ernest F. Hollings (D) Commerce
th Dakota	James Abourezk (D) Interior
Tennessee	Bill Brock (R) Finance Howard H. Baker, Jr. (R) Public Works
Texas	*Lloyd Bentsen (D) Finance; Public Works *John Tower (R) Banking, Housing & Urban Affairs
Utah	Frank E. Moss (D) Commerce Jake Garn (R) Banking, Housing & Urban Affairs
Virginia	Harry F. Byrd, Jr. (D) Finance
Washington	*Henry M. Jackson (D) Interior
West Virginia	Jennings Randolph (D) Chairman, Public Works Robert C. Byrd (D) Majority Whip
Wisconsin	William Proxmire (D) Chairman, Banking, Housing & Urban Affairs
Wyoming	Clifford P. Hansen (R) Finance; Interior

*Also on list "Representing ARCO employees"

THIS EXHIBIT 10 for identification
KATHLEEN E. DARKEY, N.P.
Sept. 12, 1972
Witness: Catherine

COPY

UNITED STATES DISTRICT COURT

FOR THE DISTRICT OF NEW JERSEY

UNITED STATES OF AMERICA,	)	
	)	
Plaintiff,	)	
	)	CIVIL NO. 370-65
v.	)	
	)	
THE AMERICAN OIL COMPANY,	)	
ATLANTIC RICHFIELD COMPANY,	)	Entered: August 12, 1971
CITIES SERVICE OIL COMPANY,	)	
CITIES SERVICE COMPANY,	)	
GULF OIL CORPORATION,	)	
HUMBLE OIL & REFINING COMPANY,	)	
SINCLAIR REFINING COMPANY, and	)	
MOBIL OIL CORPORATION,	)	
	)	
Defendants.	)	

FINAL JUDGMENT

Plaintiff, United States of America, having filed its Complaint herein on the 8th day of April, 1965, and the parties hereto, by their respective attorneys, having consented to the making and entry of this Final Judgment, without trial or adjudication of any issue of fact or law herein, and without this Final Judgment constituting evidence or an admission by any party in respect to any such issue:

NOW, THEREFORE, before the taking of any testimony and upon consent of the parties hereto, it is hereby

ORDERED, ADJUDGED AND DECREED as follows:

I

This Court has jurisdiction of the subject matter of this action and of the parties hereto. The Complaint states claims

upon which relief may be granted against the defendants under Section 1, and against defendants Atlantic Richfield Company, Cities Service Oil Company, Cities Service Company and Gulf Oil Corporation under Section 2, of the Act of Congress of July 2, 1890, as amended, entitled "An Act to protect trade and commerce against unlawful restraints and monopolies," commonly known as the Sherman Act.

II

For the purpose of this Final Judgment:

(A) "Person" shall mean any individual, partnership, firm, corporation, association, or other business or legal entity;

(B) "Gasoline" shall mean a product refined from crude oil, offered for sale as gasoline, and suitable for use as a fuel in propelling automobiles;

(C) "Refiner" shall mean any person who manufactures gasoline;

(D) "Distributor" shall mean any person, other than a refiner, who purchases gasoline for resale to dealers;

(E) "Dealer" shall mean any person, other than a refiner, who purchases gasoline and resells such gasoline to the public at retail service stations.

III

(A) The provisions of this Final Judgment applicable to any defendant shall also apply to each of its directors, officers, employees, agents, affiliates, subsidiaries, successors and assigns and to all other persons in active concert or participation with such defendant who have received actual notice of this Final Judgment by personal service or otherwise.

(B) This Final Judgment shall not apply to communications or the conduct of business between or among a defendant, its parent, corporations controlled by defendant, its subsidiaries or its parent by reason of ownership of stock, and officers,

directors and employees of any of them, or to transactions which occur outside the United States and which do not affect the commerce of the United States.

IV

Each of the defendants is enjoined and restrained from entering into or adhering to any agreement, arrangement or understanding with any other refiner, to:

(A) fix, maintain or stabilize prices at which gasoline shall be sold to any third person;

(B) suggest to any refiner or any distributor or dealer the prices at or pricing policies under which any of them shall sell gasoline to any third person;

(C) furnish to any competitor information concerning the prices at which it intends to sell gasoline to any third person;

(D) refuse to sell, or limit the sale of, or make any conditions for the sale of gasoline to any third person.

V

Each of the defendants is enjoined and restrained from entering into or adhering to any agreement, arrangement or understanding with any distributor or dealer to fix, maintain, or stabilize prices at which any distributor or dealer shall sell gasoline; provided, however, that nothing in this Decree shall prevent any defendant from exercising any legal rights which it may have under the fair trade laws of any state or under the Miller-Tydings Act, 50 Stat. 693 or under the McGuire Act, 66 Stat. 632; except that no defendant shall exercise such rights, if any, in the States of New Jersey, Pennsylvania and Delaware for a period of five (5) years from the date of entry of this Final Judgment.

VI

Each of the defendants is enjoined and restrained from:

(A) suggesting to any refiner the prices at or pricing policies under which such refiner or any distributor or dealer of such refiner shall sell gasoline to any third person;

(B) coercing any of its distributors or dealers to adhere to such defendant's suggested retail price for gasoline provided, however, that subject to this Section VI(B), nothing in this Judgment shall prohibit any defendant from unilaterally suggesting prices to its distributors or dealers for the sale of gasoline to third persons;

(C) requesting or urging any refiner to refuse to sell, or limit the sale, or make any conditions for the sale of, gasoline to any third person.

VII

Each of the defendants is ordered to:

(A) Within thirty (30) days from the date of entry of this Final Judgment, furnish a copy of said Final Judgment to each of its distributors and dealers located in the States of New Jersey, Pennsylvania and Delaware;

(B) Within fifty (50) days from the date of entry of this Final Judgment, file with the plaintiff and this Court an affidavit setting forth the fact and manner of its compliance with this Section.

VIII

Each of the defendants is ordered to file with the plaintiff, on the anniversary date of this Final Judgment for a period of ten years, a report setting forth the steps which it has taken during the prior year to advise the defendant's appropriate officers, directors and employees of its and their obligations under this Final Judgment.

IX

For the purpose of securing or determining compliance with this Final Judgment, duly authorized representatives of

the Department of Justice shall, on written request of the Attorney General, or the Assistant Attorney General in charge of the Antitrust Division, and on reasonable notice to defendant made to its principal office, be permitted, subject to any legally recognized privilege:

(A) Access, during office hours of defendant, to all books, ledgers, accounts, correspondence, memoranda and other records and documents in the possession, custody, or under the control of defendant relating to any matters contained in this Final Judgment;

(B) Subject to the reasonable convenience of defendant, and without restraint or interference from it, to interview officers, directors, agents or employees of defendant, who may have counsel present, regarding any such matters.

Upon written request of the Attorney General, or the Assistant Attorney General in charge of the Antitrust Division, made to such principal office defendant shall submit such reports in writing with respect to the matters contained in this Final Judgment as may from time to time be requested.

No information obtained by the means permitted in this Section IX shall be divulged by any representative of the Department of Justice to any person other than duly authorized representative of the Executive Branch of the plaintiff, except in the course of legal proceedings in which the United States is a party for the purpose of securing compliance with this Final Judgment, or as otherwise required by law.

X

Jurisdiction is retained for the purpose of enabling any of the parties to this Final Judgment to apply to this Court at any time for such further orders and directions as may be necessary or appropriate for the construction or carrying out of this Final Judgment, for the enforcement of compliance therewith, and the punishment of any violation thereof.

Dated

August 12, 1971

/s/ Anthony Augelli
UNITED STATES DISTRICT JUDGE